what is the difference?

Dayton Hudson Corporation

ANNUAL · REPORT 1997

Our brand personality.

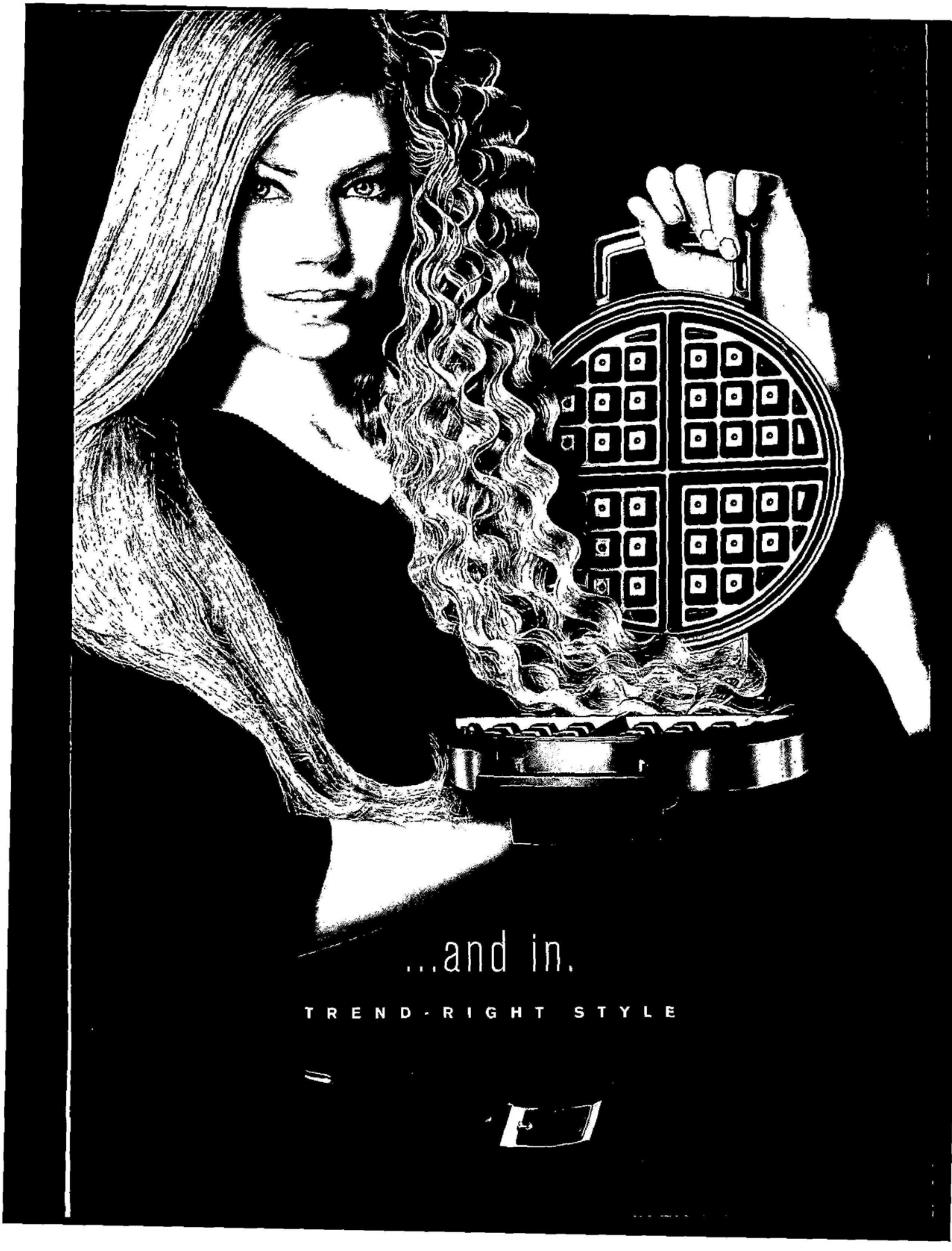
It comes from knowing ourselves and knowing what our

guests value most, so we can differentiate our stores.

In everything we do. For every guest. Every day.

Outside...

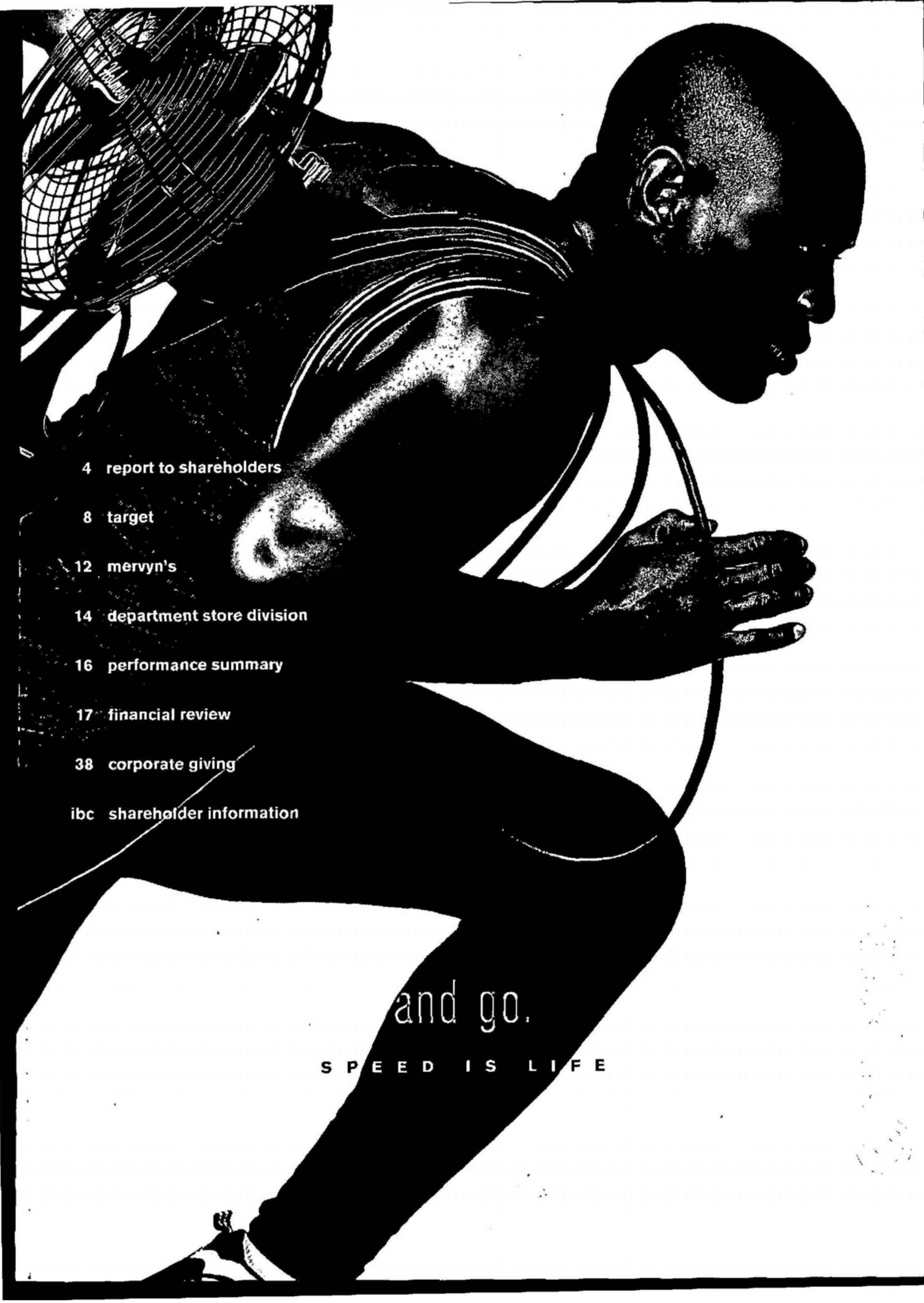
GUEST SERVICE WITH A SMILE


...and in.
TREND-RIGHT STYLE

c o n t e n t s

We stop...

FOR THE COMMUNITY


and go.
SPEED IS LIFE

financial highlights

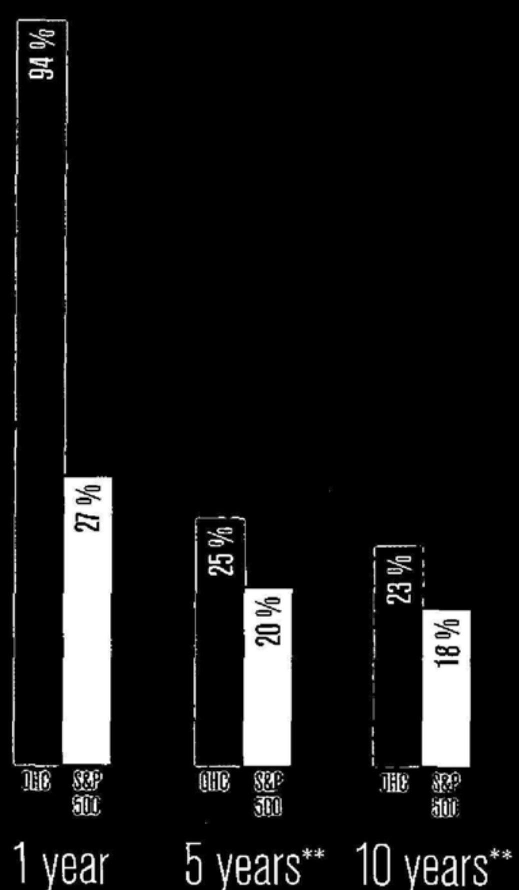
Operating Results	1997	1996	Change
Revenues	$27,757	$25,371	9%
Pre-tax Segment Profit	$ 1,807	$ 1,471	23%
Net Earnings*	$ 751	$ 463	62%
Per Share Data			
Diluted Earnings*	$ 1.59	$ .97	64%
Cash Dividends Declared	$ .33	$ .32	3%
At Year-end			
Common shares outstanding	437,833,456	434,410,452	
Retail square feet	123,058,000	117,989,000	
Number of stores	1,130	1,101	

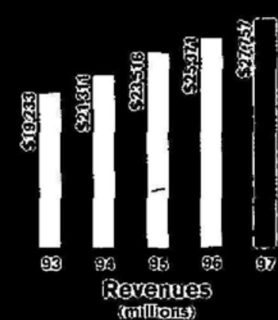
*Includes unusual items, resulting in a net after-tax charge in 1997 of $24 million, or 5 cents per share and a net after-tax charge in 1996 of $92 million, or 20 cents per share.

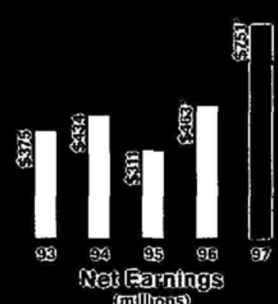
Earnings per share, dividends per share and common shares outstanding have been restated to reflect the April 1998 two-for-one common share split.

total return to shareholders

for Periods Ended 1/31/98







In today's competitive environment, many stores look alike and many offer identical merchandise. In addition, numerous convenient store locations offer guests plenty of places to shop.

a different approach

As a result, the key to success for any retailer today is differentiation and the establishment of a well-defined, strong brand image.

During the past year, we implemented programs at each of our divisions to reinforce our unique brand character with our guests and to distinguish ourselves from our competitors. At the same time, we continued to capture the benefits of the "Power of One" by leveraging the resources of the total corporation.

Together, these efforts generated superior financial results in 1997.

- Pre-tax segment profit grew 23 percent, reflecting year-over-year improvement at all three divisions for the first time since 1994.
- Net earnings increased 62 percent to $751 million and earnings per share rose 64 percent to $1.59.
- Our stock price at year end appreciated 91 percent, to a new record high level.
- And we generated a total return to our shareholders of 94 percent, significantly outperforming the 27 percent total return for the S&P 500.

We are pleased with these results and feel confident that the strategies in place at each of our divisions position us to improve on this performance in 1998 and beyond.

Target

Target had another outstanding year in 1997, generating more than $20 billion in revenues and nearly $1.3 billion of pre-tax profit. During the year, Target also opened 60 net new stores, including market entries into Cincinnati, Philadelphia and New York City. In addition, we continued to strengthen our presence in the Mid-Atlantic region.

At the core of our strong financial results and consistent store growth is Target's clearly differentiated strategy:

- our upscale, trend-forward, quality merchandise at great prices;
- our fast, fun, and friendly service;
- our clean, brightly lit and easy-to-shop stores; and
- our unique and exciting marketing and advertising programs.

Each of these factors is an integral part of Target's strategy and each one impacts how our guests perceive us. Both individually and in aggregate, these elements contribute to Target's brand character, and in turn, our strong brand character gives us a competitive advantage and positively impacts our financial performance.

Our proprietary credit card, the Target Guest Card, also supports our brand identity and differentiates Target from competitors by offering our guests a service and convenience that is generally reserved for department store shoppers. The card creates greater guest loyalty and is a key contributor to incremental sales and profits.

Target's performance in 1997 also benefited from our continuing focus on expense reduction. Throughout the year, we implemented programs to improve productivity and remove work that does not add value for our guests. We are pleased with the results of these efforts and expect to realize additional savings in 1998.

Mervyn's

Under new leadership in 1997, Mervyn's achieved steady improvement in comparable-store sales growth throughout the year and further increased full-year profit margins. These gains reflect our efforts to differentiate Mervyn's from other middle-market retailers and strengthen our brand image. We introduced or expanded our offering of national brands including Villager by Liz Claiborne, Haggar City Casuals, Union Bay and Dockers, among others. We also repositioned our owned brands—including Hillard & Hanson, Cheetah and Sprockets—to present a high-quality, trend-right, competitively priced alternative in every merchandise area. In addition, we enhanced guest service, improved in-stocks and implemented a more effective marketing program.

As planned, Mervyn's exited the Florida and Georgia markets in 1997, and closed seven additional underperforming stores. In addition, we initiated a store remodel program to strengthen our business and position us to compete more effectively in our primary markets. In 1997, we invested in new fixtures and vendor merchandise shops for approximately 175 stores and successfully experimented with two larger-scope remodels.

In 1998, our plans include the installation of vendor shops in our remaining stores as well as complete renovations of approximately ten additional locations.

In 1998, Mervyn's remains keenly focused on generating consistent same-store sales growth and delivering improved profitability, as we continue to strengthen our brand through differentiation and create value for our guests in every aspect of our business.

Department Stores

At the Department Store Division, we significantly improved sales and profit performance in 1997 and positioned the company for further improvement in 1998 and beyond. This strong recovery is attributable to improved merchandising and enhanced guest service, combined with a successful expense reduction program. Specifically, we intensified our focus on new, unique and exciting merchandise, increasing our commitment with key national vendors and broadening our assortment of core owned brands. We established service levels more consistent with guest expectations, providing additional training for team members and placing greater emphasis on product knowledge. We also eliminated more than $50 million in expenses, primarily in marketing, headquarters and distribution.

To protect and strengthen our market share throughout the Midwest, we opened two new stores in 1997—a new Hudson's store in Port Huron, Michigan and our second Marshall Field's store in Columbus, Ohio. In addition, we closed two under-performing stores.

In 1998, we expect to produce top-line growth consistent with industry averages. We are confident in our ability to deliver profit improvement and remain committed to strengthening the powerful brand identity of the Marshall Field's, Hudson's and Dayton's names.

Credit

Our internal guest credit programs strategically support our core retail operations and are an integral component of each division's business and financial results. Guest credit provides a powerful means to generate incremental sales and continues to demonstrate strong profitability. In addition, our proprietary credit programs reinforce the unique brand identities of each of our strategies and encourage greater guest allegiance to our stores.

In 1997, credit was an important contributor to our earnings growth as we continued to expand the penetration of the Target Guest Card and to build our card loyalty programs at all three divisions. For the full year, both return on investment and EVA rose sharply. In 1998, we will continue to invest in guest credit programs that contribute to our increased profitability and extend our competitive advantage.

1998 and Beyond

Over the past few years, we have increased our efficiency and effectiveness in the marketplace by consolidating operations, sharing key trend information among divisions, leveraging our marketing expertise and negotiating common contracts. In many tangible and intangible ways, we have leveraged our resources and improved our performance. In 1998 and beyond, we will continue to pursue opportunities that capitalize on operating synergies throughout the company. In the coming months, we will complete the development and implementation of our common information systems initiative and begin to reap the benefits of this massive undertaking. We remain firmly committed to our "Power of One" philosophy and believe that it creates a competitive advantage for Dayton Hudson and contributes significantly to our financial success.

At the same time, we will continue to strengthen the brand character of each of our divisions and to differentiate ourselves from our key competitors. Setting ourselves apart from other retailers underlies our ability to generate continued sales and profit increases at all three segments.

The power and momentum of these strategies give us confidence that we can deliver earnings growth in 1998 and future years consistent with our long-range objective of 15 percent or more, and as a result, continue to create substantial value for our shareholders.

Sincerely,

Bob Ulrich

Chairman and Chief Executive Officer

March 25, 1998

Board of Director Changes

During the past year, Roger Hale, president and chief executive officer, TENNANT Company, John Walter, former president and chief operating officer, AT&T Corporation, and Betty Ruth Hollander, chairman and chief executive officer, Omega Technologies, Inc., retired from our board of directors. We thank Roger for his fifteen years of service and for his contributions as vice chairman of the executive committee for the past four years. We thank John for his seven years and Betty Ruth for her eleven years of service and expertise. During the year, we welcomed to the board Susan McLaughlin, president of consumer services, BellSouth Telecommunications, Inc., and Anne Mulcahy, vice president and chief staff officer of Xerox Corporation.

Singular & plural.

THE POWER OF ONE
TIMES FIVE

target

Nothing epitomizes what keeps Target ahead of our competition more than our mission to find a fresher, brighter, newer and more innovative way to serve our guests.

It's a mission that not only helps create our culture, it's what drives our brand image. At Target, we know strong retailers are inventors rather than imitators. Today, Target clearly differentiates itself by occupying a unique, upscale discount niche that appeals to families in moderate to upper income levels.

expect more

In the minds of our guests, there's nothing like Target. And that's something we never take for granted.

For years, we've been creating our niche by offering merchandise that reflects emerging trends and lifestyle shifts, and by bringing a freshness and energy to events and promotions. We've been strengthening our niche by offering popular, name-brand merchandise so our guests always have the latest fashion-forward items priced right.

We strive to make sure our stores are the absolute best in bringing everything together in a clean, clear, logically organized environment with an atmosphere that's colorful and constantly changing. We want our guests to feel like we've offered them something special, unusual and unique, and that they're smart shoppers. That's what the Target brand is all about.

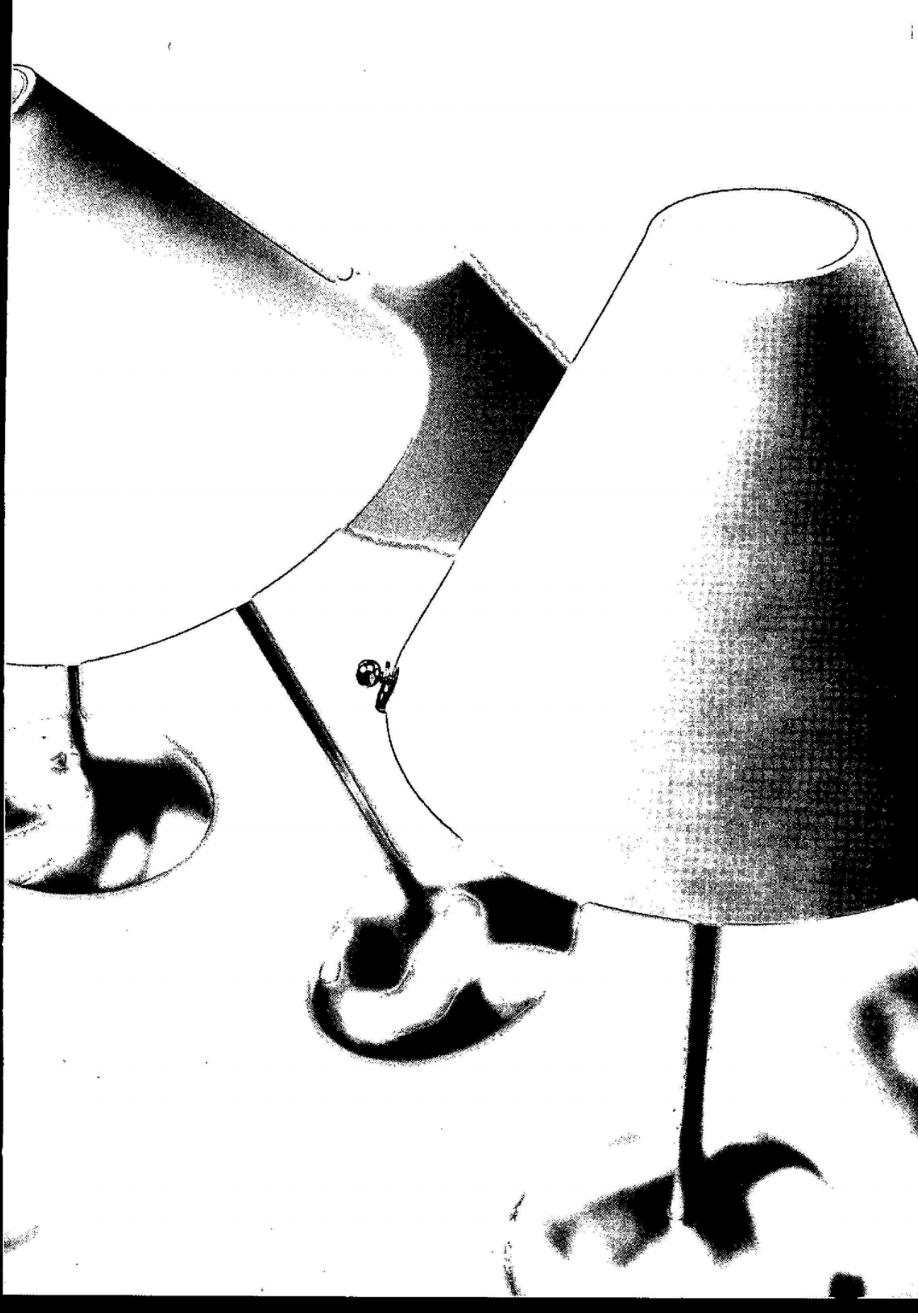
Our brand is everything.

At Target, we clearly understand our brand personality comes from knowing ourselves and knowing what our guests value most so we can positively differentiate ourselves from our competitors. And that's true in everything we do, for every guest, every day.

Our guests have come to know us—and differentiate us—by the merchandise we stock in our stores, and how we communicate it through our advertising, promotions and in-store displays.

Target's award-winning advertising is a big part of building and supporting the Target brand. For instance, the Target circular is a Sunday morning ritual for more than 100 million readers and in many markets is second only to the comics as the most widely read part of the paper. And Target reaches out to families by distributing over a million free copies of *Target The Family*® magazine each quarter. It's the first consumer magazine published by a retailer and it's filled with articles on parenting and family activities plus ideas for cooking, decorating and living an active lifestyle on a budget.

Target's high-profile celebrity partnerships also reflect Target's style. We associate the Target name with personalities that are unexpected and appealing like singer Celine Dion and skater Ekaterina Gordeeva.



Nothing creates more anticipation and excitement among our guests than promotions built around traditional holidays. Target's integrated merchandise and marketing for key seasons is unparalleled in retailing and results in memorable promotions our guests look forward to every year.

Our efforts in the community also help define Target. Our cause marketing partnerships—just one aspect of our community involvement—add warmth and substance to our guest's perceptions about Target, create goodwill and raise money for worthy programs. For example, a portion of all Target pharmacy and health product purchases benefits St. Jude Children's Research Hospital, which serves kids who have cancer and other serious diseases. In addition, we're building a home for St. Jude patients and their families to share, so they can have a better quality of life while undergoing extended medical treatment at St. Jude. Target's Take Charge of Education program is helping fundraising for local schools by donating 1 percent of a guest's Target Guest Card purchases to a school of their choice. And Target, along with other cause marketing partners, raised more than $5 million to help restore the Washington Monument. In addition to donating 5 percent of our pre-tax profit to nonprofit organizations, these cause marketing efforts connect Target to its communities.

take charge of education[SM] *is Target's overall initiative that offers a variety of programs to benefit students, teachers and schools. The School Fundraising Made Simple[SM] program allows Target Guest Card holders to designate 1 percent of their Guest Card purchases to a school of their choice.*

ten million *Target Guest Cards and counting. The card is convenient for our guests, builds loyalty and results in incremental sales.*

gift registries *at Target allow couples and families to easily and conveniently register for needed furniture, housewares, clothing, toys and day-to-day items. Club Wedd[SM] and Lullaby Club[SM] are the nation's largest bridal and baby gift registries.*

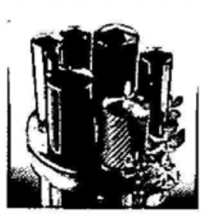



Anne Geddes


fast. fun. friendly. fresh.

It's Target's culture. Better yet, it's contagious and helps us create and maintain strong positive relationships that turn valued guests into loyal fans.

It's what makes Target rise above the competition. The attitude and atmosphere at Target is unlike anything you'll ever experience in any other store. Wide aisles, shiny floors, attractively displayed merchandise and exceptional service all contribute to providing our guests with a speedy and successful visit. "Expect More. Pay Less." is more than a slogan at Target — it's our formula for success.

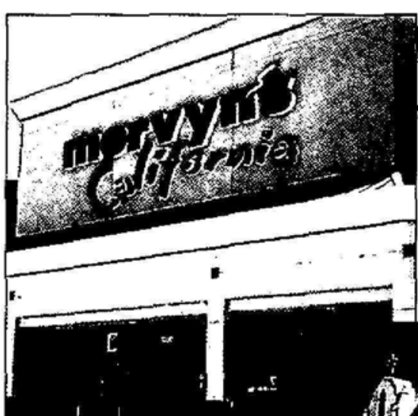



mervyn's california

California: First. Fresh. Trend-setting. Fast-forward. Overdrive. Mervyn's California delivers a competitive difference in a world where "sameness" is the norm.

Mervyn's brand strategy centers around its focus to be the premier, promotional, middle-market department store with something for every member of the family, and for the home. Where guests find interesting merchandise they won't see everywhere else. Where they can save time—and money. At Mervyn's, part of building an identity for our stores comes from promoting popular, dominant brands at very attractive prices. National brands such as Levi's, Dockers and Villager are regularly featured to appeal to our target market: working women. High-quality owned brands like Hillard & Hanson™ and Sprockets® help differentiate Mervyn's from our competitors. At Mervyn's California, we're continuously building our brand as a unique, comfortable, neighborhood department store that has exactly what our guests want at prices that can't be beat. Totally cool. Totally California.

J. Barry Mellan



a store remodel

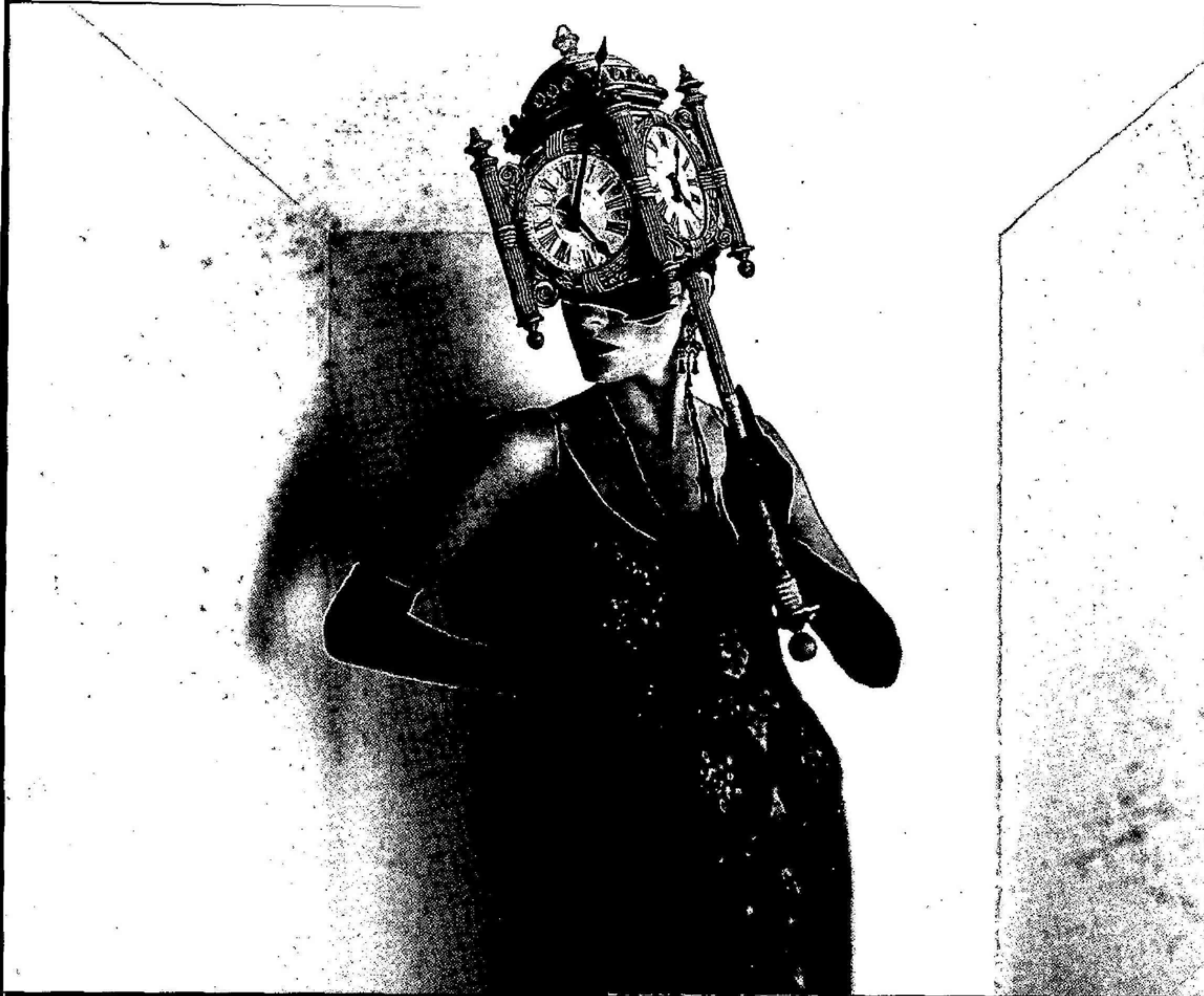
program was initiated in 1997 to strengthen our business and position us to compete more effectively in our primary markets.

big rewards

come to Mervyn's guests when they accumulate $300 in purchases on their Mervyn's card and receive a shopping day with 10 percent off all their purchases.

mission gardens

in California are being restored with proceeds from the sale of five hand-made porcelain Mission replicas. Mervyn's program received the California Chairman's Tourism Award for contributing to the positive image of California.



dayton's · hudson's · marshall field's

Our department stores are distinct because they each share the same proud heritage of being known as the best store in town. At Dayton's, Hudson's and Marshall Field's that heritage is the essence of our brand identity.

your store

Guests know our stores will always be first with better, trend-setting merchandise. Each store offers our own high-quality brands such as 111 State®, Field Gear® and Marketplace® in addition to the most in-demand national brands. And we have the variety our guests look for: not just in apparel—but home fashions, housewares and furniture. Our brand image also comes from making sure our guests have a positive experience every time they visit.

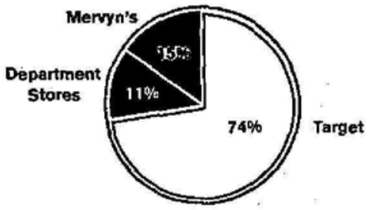
well-edited *apparel assortments offer our guests the best of a trend or style.*

relevant *merchandise in beautiful, theatrical stores appeals to our core guest: well-educated, professional working women.*

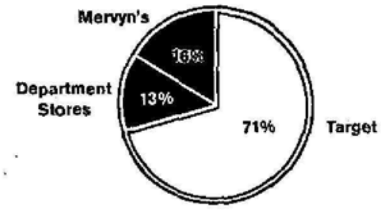
the best store in town *for finding a special gift, a great new pair of shoes or the finest bed linens, all delivered with superior service.*

And that's true whether they come to do some serious shopping at the Oval Room® or 28 Shop,® or just come to browse or be entertained. Finally, by supporting local charitable causes and playing host to traditional events year after year, our brand image is woven into the fabric of the communities we've served for generations. Whether it's lunch at the Walnut Room at Marshall Field's, celebrating the Fourth of July with Hudson's fireworks or visiting the holiday display at Dayton's, our guests count on us. For fashion. For tradition. Why shop anywhere else?

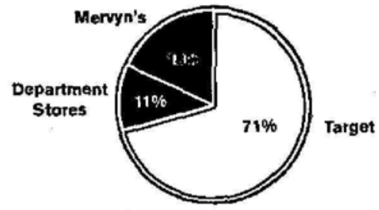
1997 Results



Revenues
(percent of total)



Pre-tax Segment Profit
(percent of total)



Retail Square Feet
(percent of total)

Target

(in millions)	1997	1996	1995
Revenues	$20,368	$ 17,853	$15,807
Pre-tax Profit	$ 1,287	$ 1,048	$ 721
Stores	796	736	670
Retail Square Feet*	87,158	79,360	71,108

*In thousands, reflects total square feet, less office, warehouse and vacant space.

Target Locations (at year end)

☐ = Store-occupied State
⊡ = Major Market

	Retail Sq. Ft. in Thousands	No. of Stores		Retail Sq. Ft. in Thousands	No. of Stores
AL	117	1	NE	1,072	9
AZ	2,451	23	NV	841	8
AR	186	2	NJ	509	4
CA	15,289	138	NM	730	7
CO	2,355	22	NY	717	6
FL	6,846	62	NC	2,161	20
GA	2,795	26	ND	437	4
ID	406	4	OH	2,598	23
IL	5,457	48	OK	790	8
IN	2,836	30	OR	1,174	11
IA	1,769	17	SC	393	4
KS	1,106	9	SD	391	4
KY	1,134	11	TN	1,945	19
LA	203	2	TX	8,848	82
MD	1,509	13	UT	1,055	6
MI	4,796	45	VA	2,153	18
MN	5,372	46	WA	2,401	23
MS	116	1	WI	2,337	22
MO	1,382	13	WY	182	2
MT	299	3	**Total**	**87,158**	**796**

Major Markets

Greater Los Angeles	69	Denver	15
Chicago	33	Phoenix	15
Minneapolis/St. Paul	32	San Diego	13
San Francisco Bay Area	26	Seattle/Tacoma	12
Detroit	23	Indianapolis	11
Dallas/Ft. Worth	22	St. Louis	11
Atlanta	21	Tampa/St. Petersburg	11
Houston	21		
Greater Miami	19	**Employees:**	166,000

Mervyn's

(in millions)	1997	1996	1995
Revenues	$ 4,227	$ 4,369	$ 4,516
Pre-tax Profit	$ 280	$ 272	$ 117
Stores	269	300	295
Retail Square Feet*	21,810	24,518	24,113

Mervyn's Locations (at year end)

☐ = Store-occupied State
⊡ = Major Market

	Retail Sq. Ft. in Thousands	No. of Stores
AZ	1,207	15
CA	9,784	126
CO	854	11
ID	83	1
LA	459	6
MI	1,176	15
MN	1,132	9
NV	495	7
NM	266	3
OK	270	3
OR	551	7
TX	3,344	42
UT	760	8
WA	1,429	16
Total	**21,810**	**269**

Major Markets

Greater Los Angeles	49
San Francisco Bay Area	29
Dallas/Ft. Worth	12
San Diego	12
Phoenix	11
Detroit	9
Houston	9
Minneapolis/St. Paul	9
Seattle/Tacoma	9
Greater Salt Lake City	8
Denver	6

Employees: 29,000

Department Stores

(in millions)	1997	1996	1995
Revenues	$ 3,162	$ 3,149	$ 3,193
Pre-tax Profit	$ 240	$ 151	$ 192
Stores	65	65	64
Retail Square Feet*	14,090	14,111	13,870

Department Store Locations (at year end)

☐ = Store-occupied State
⊡ = Major Market

	Retail Sq. Ft. in Thousands	No. of Stores
Dayton's		
MN	3,080	13
ND	297	3
SD	102	1
WI	373	3
Hudson's		
MI	4,619	20
OH	187	1
Marshall Field's		
IL	4,173	17
IN	246	2
OH	431	2
TX	155	1
WI	427	2
Total DSD	**14,090**	**65**

Major Markets

Chicago	16
Detroit	11
Minneapolis/St. Paul	11

Employees: 35,000

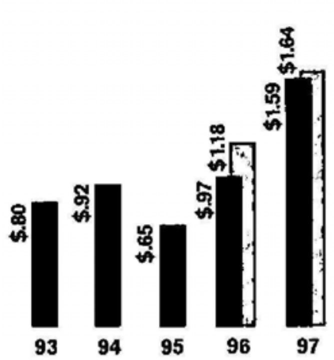
Total Stores: 1,130

Total Retail Square Feet: 123,058,000

Our net earnings were $751 million in 1997, compared with $463 million in 1996 and $311 million in 1995. Earnings per share were $1.59 in 1997, $.97 in 1996 and $.65 in 1995. (References to earnings per share refer to diluted earnings per share. Earnings per share, dividends per share and common shares outstanding have been restated to reflect our April 1998 two-for-one common share split.) In 1997, earnings included two unusual items, a pre-tax securitization gain of $45 million ($.06 per share) and an extraordinary charge, net of tax, for the purchase and redemption of debt of $51 million ($.11 per share). In 1996, earnings were net of a pre-tax real estate repositioning charge of $134 million ($.18 per share) and an extraordinary charge, net of tax, for the purchase and redemption of debt of $11 million ($.03 per share). Earnings per share excluding all unusual items were $1.64 in 1997, $1.18 in 1996 and $.65 in 1995.

Pre-tax segment profit increased 23 percent in 1997 to $1,807 million, compared with $1,471 million in 1996 and $1,030 million in 1995. Pre-tax segment profit is first-in first-out (FIFO) earnings before securitization effects, interest, corporate and other expense, and unusual items. All three operating companies contributed to our pre-tax profit growth: Target improved 23 percent; Mervyn's 3 percent; and DSD 59 percent. We expect continued growth in profitability in 1998.

- **Target's** pre-tax profit rose 23 percent in 1997 to $1,287 million. Target's full-year profit margin rate increased to 6.3 percent in 1997 from 5.9 percent in 1996, reflecting continued strong sales momentum and modest improvement in both gross margin and operating expense rates. Although guest credit is a small part of Target's overall profit, it contributed to growth in sales and earnings. In 1998, we expect our profit margin rate to remain essentially unchanged while total revenues are expected to grow due to mid-single-digit comparable-store sales increases combined with new store sales growth.
- **Mervyn's** pre-tax profit improved 3 percent in 1997 to $280 million, despite lost revenue and profits from the 31 net stores closed in 1997. Mervyn's gross margin rate was modestly better than the prior year reflecting improved markup, partially offset by higher markdowns. Mervyn's also experienced a strong improvement in results from guest credit. Mervyn's expense rate was essentially even with last year. In 1997, as planned, Mervyn's exited the Florida and Georgia markets and closed seven additional under-performing stores. These changes better position us to compete more effectively in our primary markets. Mervyn's also initiated a store remodel program in 1997. We plan to remodel approximately ten additional stores in 1998. We expect continued modest improvement in our profit margin rate in 1998 and low single-digit comparable-store sales increases.
- **DSD's** pre-tax profit was $240 million, a 59 percent increase over 1996, primarily due to a significant improvement in the operating expense rate. During 1997, we intensified our focus on distinctive merchandise assortments, broadened our assortment of owned brands, enhanced guest service and eliminated more than $50 million in expenses. By continuing these initiatives we expect to further improve profitability in 1998. Comparable-store sales are expected to grow in the low single digits in 1998 and gross margin rate is expected to increase modestly.



Diluted Earnings per Share
(dollars)

■ as reported
□ before unusual items

Revenues

In 1997, our total and comparable-store revenues increased 9 percent and 5 percent, respectively. Revenues include retail sales, finance charges, late fees and other revenues. Comparable-store revenues are revenues from stores open longer than one year. Target's revenue growth reflected strong comparable-store revenues and new store expansion. Mervyn's 1997 total revenues declined due to stores closed. Mervyn's comparable-store revenue growth reflected continued focus on merchandising and marketing initiatives. DSD's total revenues were even with 1996, also reflecting closed stores, while comparable-store revenues increased slightly over the prior year. Increased finance charge and late fee revenues at all three operating divisions also contributed to revenue growth. We expect comparable-store revenues to increase at all three divisions in 1998.

Revenue growth in 1996 reflected a combination of new store and comparable-store growth at Target, somewhat offset by Mervyn's total and comparable-store revenue decline. DSD's comparable-store revenue decline was due to a reduction in promotional days in 1996.

The impact of inflation on our consolidated operations was minimal and, as a result, the overall comparable-store revenue increase closely approximated real growth.

Revenue Growth	1997		1996*	
	All Stores	Comp. Stores	All Stores	Comp. Stores
Target	14%	6%	13%	6%
Mervyn's	(3)	3	(3)	(4)
DSD	–	1	(1)	(4)
Total	9%	5%	8%	3%

Revenues Per Square Foot** (Dollars)	1997	1996	1995*
Target	$244	$235	$230
Mervyn's	187	179	190
DSD	224	223	230

* Excludes the effect of 53rd week in 1995.
** Thirteen-month average retail square feet.

Gross Margin Rate

In 1997, our overall gross margin rate was essentially even with the prior year. Gross margin includes cost of retail sales and excludes buying and occupancy costs. Strong growth at Target, our lowest gross margin rate division, continues to impact our business mix.

- **Target's** gross margin rate increased modestly due to improved markup, partially offset by higher markdowns. In 1998, we anticipate the gross margin rate to be essentially even with 1997.
- **Mervyn's** gross margin rate improved modestly for the year reflecting improved markup, partially offset by higher markdowns. In 1998, we expect Mervyn's gross margin rate to further increase as we continue to improve the quality and trend content of our merchandise.
- **DSD's** gross margin rate increased over 1996 due to improved markup, partially offset by higher markdowns. In 1998, we anticipate DSD's gross margin rate will increase modestly.

In 1996, overall gross margin rate improved, reflecting strong gross margin rate improvement at Target and Mervyn's, somewhat offset by a slight rate deterioration at DSD and the growing impact of Target's lower gross margin rate structure.

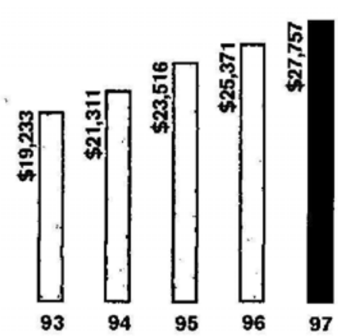
The LIFO provision, included in cost of retail sales, was as follows:

LIFO Provision: (Expense)/Credit (Millions of Dollars, except Per Share Data)	1997	1996	1995
Target	$ –	$ –	$ –
Mervyn's	–	5	(12)
DSD	(6)	(14)	(5)
Total	$ (6)	$ (9)	$ (17)
Per Share	$(.01)	$(.01)	$(.02)

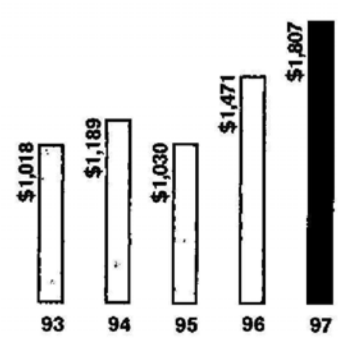
The LIFO provision is calculated based on inventory levels, markup rates and internally generated retail price indices. The 1997 LIFO charge at DSD resulted from slight retail price inflation and lower inventory levels. In 1996, the LIFO credit at Mervyn's resulted principally from higher markup and lower inventory levels, while the LIFO charge at DSD resulted primarily from exiting the electronics business and the sale of stores in Texas.

Operating Expense Rate

Our overall operating expense rate improved in 1997 due primarily to changes outlined below and the favorable effect of Target's increased impact on our overall expense rate structure. Operating expense includes selling, publicity and administrative expenses (excluding start-up and corporate and other expense), depreciation and amortization, buying and occupancy costs, and taxes other than income taxes.



Revenues
(millions)



Pre-tax Segment Profit
(millions)

- **Target's** operating expense rate improved in 1997 reflecting continued savings in the second year of a three-year program to remove $200 million from operating expenses. In 1998, expense reduction will remain a priority; however, ongoing wage rate pressures within our competitive markets may challenge our ability to fully realize our planned 1998 savings of $60 to $70 million.
- **Mervyn's** operating expense rate was essentially even with 1996 and we expect a similar rate in 1998.
- **DSD's** significant operating expense rate improvement in 1997 resulted from expense reduction initiatives. In 1998, we expect DSD's operating expense rate to be essentially unchanged from 1997.

The operating expense rate in 1996 improved over 1995 due to significant cost reductions at Mervyn's and Target, and the favorable effect of Target's increased impact on the overall expense rate structure.

Interest Expense

We view payments to holders of our sold securitized receivables as an "interest equivalent." In 1997, combined interest expense and interest equivalent was $18 million lower than 1996 due to a lower average portfolio rate and lower average funded balances. In 1996, interest expense and interest equivalent was $15 million higher than 1995 as higher average funded balances were only partially offset by a lower average portfolio rate. Combined interest expense and interest equivalent in 1998 is expected to be similar to 1997.

During 1997, we repurchased $503 million of high-coupon debt for $583 million, resulting in an after-tax extraordinary charge of $51 million ($.11 per share). The replacement of this debt with lower interest rate financing will reduce interest expense going forward. The debt repurchased had an average interest rate of 9.4 percent and an average remaining life of approximately 18 years.

Income Tax Rate

The effective tax rate was 39.5 percent in both 1997 and 1996, and 38.0 percent in 1995. The effective tax rate in 1997 and 1996 reflects a more normalized rate, while lower earnings in 1995 caused permanent differences to have a greater impact. Our 1998 tax rate is expected to approximate the 1997 rate.

Real Estate Repositioning Charge

In 1996, we recorded a pre-tax charge of $134 million ($.18 per share) for real estate repositioning at Mervyn's and DSD to strengthen competitive positions and achieve improved long-term results. The charge included $114 million for Mervyn's to sell or close its 25 stores in Florida and Georgia and approximately ten other under-performing stores throughout the chain. Also included was a net charge of $20 million for DSD's sale of its Texas stores and the closure of two other stores.

To date, Mervyn's has exited the Florida and Georgia markets and closed seven other under-performing stores, while DSD has sold three Texas stores and closed two other stores. Exit costs incurred during 1997 (approximately $17 million) were charged against the reserve; the reserve remaining at year-end 1997 was $25 million. We expect to sell or close the remaining stores within the next year.

Securitization

During third quarter 1997, Dayton Hudson Receivables Corporation (DHRC), a special-purpose subsidiary, sold to the public $400 million of securitized receivables. This issue of asset-backed securities has an expected maturity of five years and a stated rate of 6.25 percent. Proceeds from the sale were used for general corporate purposes, including funding the growth of receivables. As required by Statement of Financial Accounting Standards (SFAS) No. 125, this transaction resulted in a pre-tax gain of $32 million. Total year results also include an additional $13 million pre-tax gain attributable to the application of SFAS No. 125 to our 1995 securitization. Combined, these gains total $45 million ($.06 per share).

Our Consolidated Results of Operations include reductions of finance charge revenues and bad debt expense, which reduce earnings by $33 million in 1997, $25 million in 1996 and $10 million in 1995. These amounts represent payments to holders of our sold securitized receivables, and are included in our pre-tax earnings reconciliation on page 25 as interest equivalent, below pre-tax segment profit. While outstanding, our current $800 million of sold securitized receivables will result in approximately $12 million of interest equivalent per quarter.

In third quarter 1998, our 1995 securitization will mature and result in a pre-tax charge, based on our current assessments, of $30 to $35 million. This charge would be offset by the gain related to a new sale of securitized receivables, if market conditions support a transaction at that time.

Year 2000 / Information Systems

We have invested heavily in information services (IS) in the past two years. We consolidated our IS operations in 1996 and have begun to develop and implement common systems across all three divisions to better leverage our resources. As a result of our common systems initiatives, the growth in our IS expense has substantially outpaced our revenue growth.

We have assessed key operational, information and financial systems as a part of a comprehensive plan of action to address the risk of the year 2000 date conversion. We have developed plans and implemented procedures to effect required modifications to our existing systems and equipment, and we are working closely with our hardware and software vendors to ensure existing and newly installed systems are year 2000 ready. We are also working with our business partners to mitigate the risk to us if they are not ready for the year 2000.

Year 2000 related costs are expensed as incurred. As of January 31, 1998, expense related to year 2000 conversion was immaterial. Year 2000 costs would have been significantly higher if not for our recent, substantial common systems development. We estimate expenditures necessary to complete the year 2000 readiness program will be approximately $40 million over the next two years, with most of the spending occurring in 1998.

We believe we are positioned to achieve year 2000 readiness on a timely basis. Although we do not anticipate incurring material costs beyond our estimate above, the scope of this issue is difficult to predict with certainty and there can be no assurance that we, or our business partners, will successfully complete every phase of year 2000 conversion on a timely basis, or that material additional expenses will not be incurred.

In first quarter 1998, we will adopt Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The initial impact of the adoption will shift certain IS development spending from expense to capital, and increase 1998 pre-tax earnings by approximately $60 million ($.08 per share), net of first year depreciation. The annual benefit is expected to diminish significantly over the next few years.

Net IS expense growth in 1998 is expected to be similar to our revenue growth, due to the combination of ongoing systems development and implementation, year 2000 related costs and the effects of software capitalization.

Fourth Quarter Results

Due to the seasonal nature of the retail industry, fourth quarter operating results typically represent a substantially larger share of the total year revenues and earnings due to the inclusion of the holiday shopping season.

Fourth quarter 1997 net earnings were $356 million, compared with $214 million in 1996. Earnings per share after extraordinary charges were $.76 for the quarter, compared with $.45 in 1996. Fourth quarter 1996 results were unfavorably affected by the real estate repositioning charge previously discussed.

- **Target's** pre-tax profit increased 12 percent over fourth quarter 1996, reflecting a 14 percent total revenue increase and an improved operating expense rate, partially offset by a lower gross margin rate due to higher markdowns. Comparable-store revenues increased 6 percent.
- **Mervyn's** pre-tax profit decreased 2 percent in the quarter, although profit increased slightly when 1996 profits from stores closed in 1997 are excluded. Total revenues for the quarter declined 2 percent while comparable-store revenues increased 6 percent. The gross margin rate was somewhat below 1996 due to higher markdowns. The operating expense rate improved primarily due to lower occupancy costs and improved store productivity.
- **DSD's** fourth quarter pre-tax profit increased 81 percent over 1996. Total revenue growth was essentially unchanged while comparable-store revenues grew 2 percent. The gross margin rate improved slightly and the operating expense rate decreased significantly due to improved store productivity and other expense reduction initiatives.

Analysis of Financial Condition

Our financial condition remains strong. Cash flow from operations was $1,795 million, driven by earnings growth, strong inventory control and accounts payable leveraging. Internally generated funds continue to be the most important component of our capital resources and, along with our ability to access a variety of financial markets, provide funding for our expansion plans. We continue to fund the growth in our business through a combination of retained earnings, debt and sold securitized receivables.

During 1997, average total receivables increased 13 percent, or $248 million, principally due to growth of the Target Guest Card. In 1997, the number of Target Guest Card holders grew significantly to over nine million accounts at year end compared with five million in 1996. Retained securitized receivables decreased during the third quarter, as a result of the $400 million sale of securitized receivables. In 1998, we expect continued growth of the Target Guest Card which will benefit sales growth and credit profitability.

Inventory levels increased $220 million in 1997. The majority of this growth was funded by the $199 million increase in accounts payable over the same period.

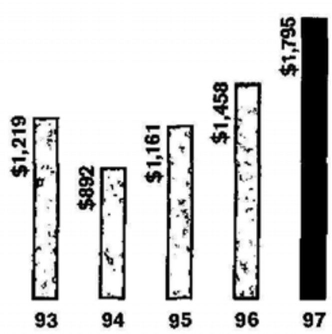
Capital expenditures were $1,354 million in 1997, compared with $1,301 million in 1996. Investment in Target accounted for 85 percent of 1997 capital expenditures, with 6 percent at Mervyn's and 9 percent at DSD. Net property and equipment increased $658 million, reflecting capital invested offset by depreciation. During 1997, Target opened 60 net stores, Mervyn's closed 31 net stores and DSD opened two stores and closed two stores. Approximately 64 percent of total expenditures was for new stores. Other capital investments were for distribution, information systems and other infrastructure to support store growth. Over the past five years, Target's retail square footage has grown at a compound annual rate of approximately 10 percent. We expect to continue to expand in the range of 8 to 10 percent annually for the foreseeable future.

Capital expenditures in 1998 are expected to approximate $1.6 billion for the construction of new stores, remodeling of existing stores and other capital support. The majority of new store capital continues to be invested in Target. In the upcoming year, Target plans to open approximately 60 net new stores in new and existing markets. Expansion plans for Target in 1998 include new stores in the greater New York City and Philadelphia markets. We will also open stores in New Jersey, Virginia, Maryland and other states. Our plans include major remodels of approximately ten Mervyn's stores and new fixtures at the remaining stores to create additional vendor shops. Mervyn's and DSD do not plan to open any new stores in 1998.

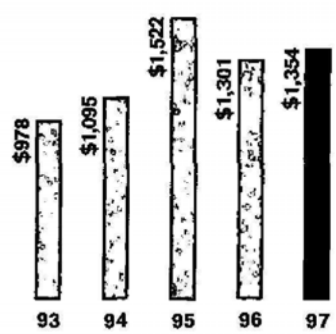
Our financing strategy is to ensure liquidity and access to capital markets, to manage the amount of floating-rate debt and to maintain a balanced spectrum of debt maturities. Within these parameters, we seek to minimize our cost of borrowing. The average rate on our financings, including interest equivalent on sold securitized receivables, decreased to 8.1 percent in 1997 from 8.3 percent in 1996. This rate is expected to decline further in 1998.

A key to the Corporation's liquidity and capital markets access is maintaining strong investment-grade debt ratings. Our ratings are sufficient to support commercial paper levels well in excess of our $305 million outstanding at year end. Further liquidity is provided by $1.6 billion of committed lines of credit obtained through a group of 29 banks. Going forward, we expect that continued profit increases and cash flow from operations will allow us to fund our planned capital expenditures while maintaining or improving our debt ratings.

Credit Ratings	Moody's	Standard and Poor's	Duff & Phelps
Long-term Debt	Baa1	BBB+	A-
Commercial Paper	P-2	A-2	D-1-
Sold Securitized Receivables	Aaa	AAA	N/A



Cash Flow from Operations
(millions)



Capital Expenditures
(millions)

Shareholder Return

Our primary objective is to maximize shareholder value over time through a combination of share price appreciation and dividend income while maintaining a prudent and flexible capital structure.

Our total return to shareholders approximated 94 percent in fiscal 1997 and has averaged 25 percent and 23 percent per year over the last five and ten years, respectively.

Measuring Value Creation

We measure value creation internally using a form of Economic Value Added (EVA), which we define as after-tax segment profit less a capital charge for all investment employed. The capital charge is an estimate of our after-tax cost of capital adjusted for the age of our stores, recognizing mature stores inherently have higher returns than newly opened stores. We estimate the after-tax cost of capital for our retail business is 10 percent, while our credit operations' after-tax cost of capital is estimated to be 6 percent as a result of its ability to support higher debt levels. We expect to generate returns in excess of these costs of capital, thereby producing EVA.

EVA is used to evaluate our performance and to guide capital investment decisions. A significant portion of executive incentive compensation is tied to the achievement of targeted levels of annual EVA improvement.

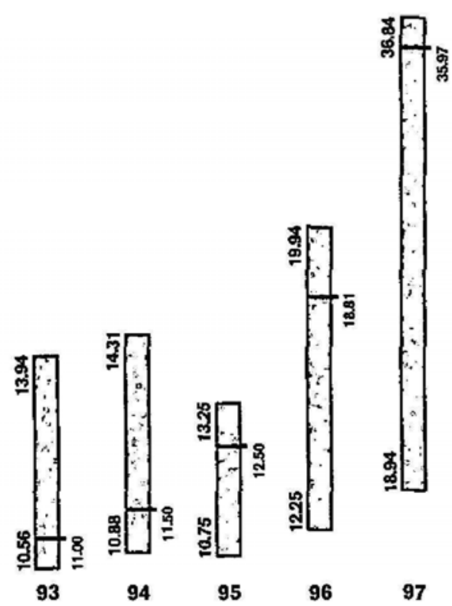
Financial Objectives

We believe managing our business with a focus on EVA helps achieve our objective of annual earnings per share growth of 15 percent or more over time. We plan to produce these results, while maintaining a year-end debt ratio for our retail operations within a range of 45 percent to 55 percent, which will allow efficient capital market access to fund our growth. We ended 1997 with a retail debt ratio of 45 percent.

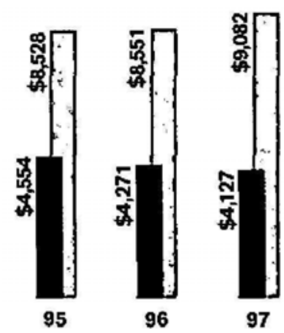
In evaluating our debt level, we separate retail operations from credit operations due to their inherently different financial characteristics. We view the appropriate capitalization of our credit business to be 88 percent debt and 12 percent equity, similar to ratios of comparable credit card businesses.

Debt Ratio*	1997	1996	1995
Retail	45%	50%	53%
Credit	88%	88%	88%
Total Debt Ratio	54%	57%	60%

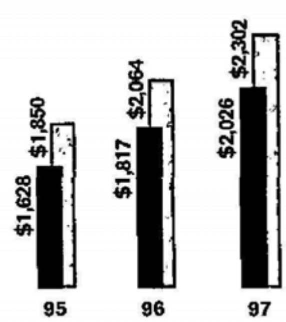
* Includes the impact of off-balance sheet operating leases and sold securitized receivables as if they were debt.



Market Price per Share
(dollars)
High Low Close



Retail Capitalization
(millions)
Debt Total



Credit Capitalization
(millions)
Debt Total

Guest Credit

We offer proprietary credit in each of our business segments. These credit programs strategically support our core retail operations and are an integral component of each business segment. The programs contribute to our earnings growth by driving sales at each of our business segments and through growth in credit contribution. As such, credit contribution shown below is reflected in each business segment's pre-tax profit on a receivables serviced basis (which includes both retained and sold securitized receivables). In contrast, our consolidated financial statements reflect only our retained securitized receivables.

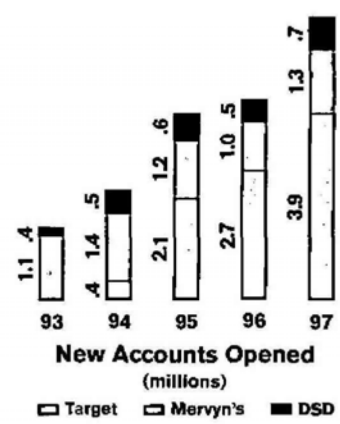
In 1997, pre-tax contribution from credit increased 29 percent over the prior year, compared to the growth in average receivables serviced of 13 percent. The improved credit performance reflects continued growth of the Target Guest Card, along with strong revenue increases associated with changes in credit terms and expansion of our guest loyalty programs at all three divisions. The revenue favorability was partially offset by an increase in bad debt expense.

In 1998, we plan to continue to grow guest credit's contribution and EVA by acquiring new accounts, refining guest loyalty programs, controlling bad debt expense and leveraging operating expenses.

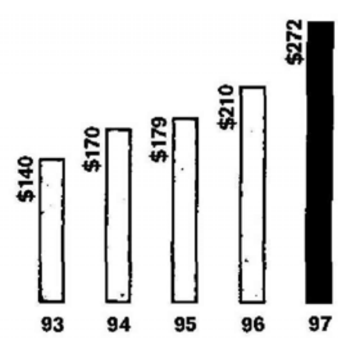
Credit Contribution (Millions of Dollars)	1997	1996	1995
Revenues:			
Finance charge and late fee revenues	$ 501	$ 403	$ 313
Merchant and deferred billing fees	86	72	75
Total revenues	587	475	388
Expenses:			
Bad debt	190	149	104
Other	125	116	105
Total expenses	315	265	209
Pre-tax Contribution	$ 272	$ 210	$ 179
Average receivables serviced:			
Target	$ 644	$ 453	$ 313
Mervyn's	812	799	791
DSD	707	663	615
Total average receivables serviced	$2,163	$1,915	$1,719
Total year-end receivables serviced	$2,424	$2,184	$1,919

Merchant fees are the fees charged to our retail operations on a basis similar to fees charged by third-party credit cards. Deferred billing fees are charged for carrying non-revenue-earning revolving balances. Both the merchant and deferred billing fees are intercompany transfer prices that are eliminated in consolidation. Other expenses are those associated with the acquisition, retention and servicing of accounts.

The year-end allowance for doubtful accounts was $168 million, 6.9 percent of year-end receivables serviced, an increase of 1.5 percentage points from the prior year.



New Accounts Opened
(millions)



Credit Contribution
(millions)

Pre-tax Segment Profit and EBITDA

Pre-tax segment profit is first-in first-out (FIFO) earnings before securitization effects, interest, corporate and other expense, and unusual items. EBITDA is pre-tax segment profit before depreciation and amortization. Management uses pre-tax segment profit and EBITDA, among other standards, to measure divisional operating performance. EBITDA supplements, and is not intended to represent a measure of performance in accordance with, disclosures required by generally accepted accounting principles. It is included as a tool for analyzing our results.

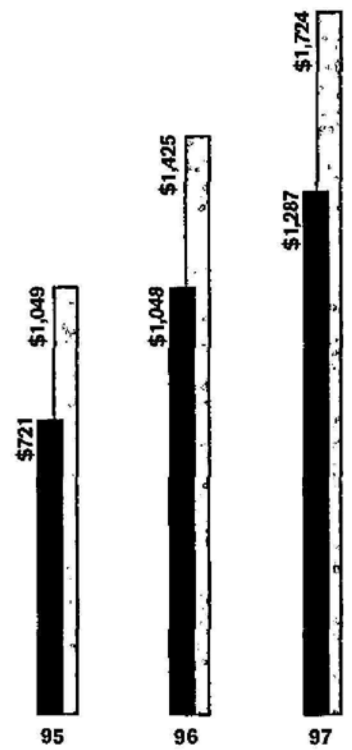
Pre-tax Segment Profit as a Percent of Revenues			
	Target	Mervyn's	DSD
1997	6.3%	6.6%	7.6%
1996	5.9	6.2	4.8
1995*	4.6	2.6	6.0

EBITDA as a Percent of Revenues			
1997	8.5%	9.6%	11.6%
1996	8.0	9.7	8.6
1995*	6.6	5.9	9.6

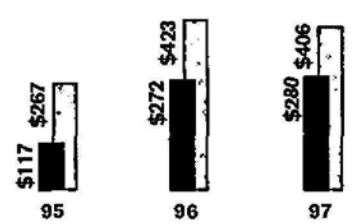
*Consisted of 53 weeks

Forward-Looking Statements

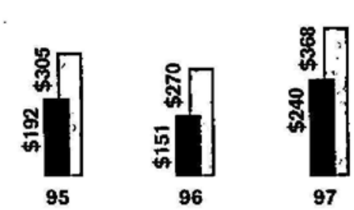
The preceding Management's Discussion and Analysis contains forward-looking statements regarding the Company's performance, liquidity and the adequacy of its capital resources. Those statements are based on management's current assumptions and expectations and are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. The Company cautions that the forward-looking statements are qualified by the risks of increased competition, shifting consumer demand, changing consumer credit markets and general economic conditions, hiring and retaining effective team members, sourcing merchandise from domestic and international vendors, preparing for the impact of year 2000, and other risks and uncertainties. As a result, while management believes that there is a reasonable basis for the forward-looking statements, undue reliance should not be placed on those statements. Readers are encouraged to review Exhibit 99.2 attached to the Company's Form 10-K Report for the year ended January 31, 1998 which contains additional important factors that may cause actual results to differ materially from those predicted in the forward-looking statements.



Target
(millions)
Pre-tax Segment Profit EBITDA



Mervyn's
(millions)
Pre-tax Segment Profit EBITDA



DSD
(millions)
Pre-tax Segment Profit EBITDA

Business Segment Comparisons

(Millions of Dollars)	1997	1996	1995*	1994	1993	1992
Revenues						
Target	$20,368	$17,853	$15,807	$13,600	$11,743	$10,393
Mervyn's	4,227	4,369	4,516	4,561	4,436	4,510
Department Store Division	3,162	3,149	3,193	3,150	3,054	3,024
Total revenues	$27,757	$25,371	$23,516	$21,311	$19,233	$17,927
Pre-tax segment profit						
Target	$ 1,287	$ 1,048	$ 721	$ 732	$ 600	$ 576
Mervyn's	280	272	117	198	172	280
Department Store Division	240	151	192	259	246	239
Total pre-tax segment profit	$ 1,807	$ 1,471	$ 1,030	$ 1,189	$ 1,018	$ 1,095
LIFO provision (expense)/credit	(6)	(9)	(17)	19	91	(9)
Real estate repositioning charge	–	(134)	–	–	–	–
Securitization adjustments:						
Interest equivalent	(33)	(25)	(10)	–	–	–
SFAS 125 gain	45	–	–	–	–	–
Interest expense, net	(416)	(442)	(442)	(426)	(446)	(437)
Corporate and other	(71)	(78)	(60)	(68)	(56)	(38)
Earnings before income taxes and extraordinary charges	$ 1,326	$ 783	$ 501	$ 714	$ 607	$ 611
Assets						
Target	$ 9,487	$ 8,257	$ 7,330	$ 6,247	$ 5,495	$ 4,913
Mervyn's	2,281	2,658	2,776	2,917	2,750	3,042
Department Store Division	2,188	2,296	2,309	2,392	2,240	2,292
Corporate and other	235	178	155	141	293	90
Total assets	$14,191	$13,389	$12,570	$11,697	$10,778	$10,337
Depreciation and amortization						
Target	$ 437	$ 377	$ 328	$ 294	$ 264	$ 236
Mervyn's	126	151	150	145	146	135
Department Store Division	128	119	113	108	104	104
Corporate and other	2	3	3	1	1	1
Total depreciation and amortization	$ 693	$ 650	$ 594	$ 548	$ 515	$ 476
Capital expenditures						
Target	$ 1,155	$ 1,048	$ 1,067	$ 842	$ 716	$ 571
Mervyn's	72	79	273	146	180	294
Department Store Division	124	173	161	96	80	72
Corporate and other	3	1	21	11	2	1
Total capital expenditures	$ 1,354	$ 1,301	$ 1,522	$ 1,095	$ 978	$ 938
Segment EBITDA						
Target	$ 1,724	$ 1,425	$ 1,049	$ 1,026	$ 864	$ 812
Mervyn's	406	423	267	343	318	415
Department Store Division	368	270	305	367	350	343
Total Segment EBITDA	$ 2,498	$ 2,118	$ 1,621	$ 1,736	$ 1,532	$ 1,570

* Consisted of 53 Weeks

Each operating division's assets and operating results include the retained securitized receivables held by Dayton Hudson Receivables Corporation and Retailers National Bank in 1993-1997, as well as related income and expenses.

Consolidated Results of Operations

(Millions of Dollars, Except Per Share Data)	1997	1996	1995
Revenues	**$27,757**	$25,371	$23,516
Costs and Expenses			
Cost of retail sales, buying and occupancy	**20,320**	18,628	17,527
Selling, publicity and administrative	**4,532**	4,289	4,043
Depreciation and amortization	**693**	650	594
Interest expense, net	**416**	442	442
Taxes other than income taxes	**470**	445	409
Real estate repositioning charge	–	134	–
Total Costs and Expenses	**26,431**	24,588	23,015
Earnings Before Income Taxes and Extraordinary Charges	**1,326**	783	501
Provision for Income Taxes	**524**	309	190
Net Earnings Before Extraordinary Charges	**$ 802**	$ 474	$ 311
Extraordinary Charges from Purchase and Redemption of Debt, Net of Tax	**51**	11	–
Net Earnings	**$ 751**	$ 463	$ 311
Basic Earnings Per Share			
Earnings Before Extraordinary Charges	**$ 1.80**	$ 1.05	$ .67
Extraordinary Charges	**(.12)**	(.03)	–
Basic Earnings Per Share	**$ 1.68**	$ 1.02	$ .67
Diluted Earnings Per Share			
Earnings Before Extraordinary Charges	**$ 1.70**	$ 1.00	$ .65
Extraordinary Charges	**(.11)**	(.03)	–
Diluted Earnings Per Share	**$ 1.59**	$ .97	$ .65
Average Common Shares Outstanding (Millions)			
Basic	**436.1**	433.3	431.0
Diluted	**463.7**	460.9	458.3

See Notes to Consolidated Financial Statements throughout pages 25–36.

Summary of Accounting Policies

Organization Dayton Hudson Corporation is a general merchandise retailer. Our operating divisions consist of Target, Mervyn's and the Department Store Division (DSD). Target, an upscale discount chain located in 39 states, contributed 74 percent of our 1997 revenues. Mervyn's, a middle-market promotional department store located in 14 states in the West, South and Midwest, contributed 15 percent of revenues. DSD, a traditional department store located in nine states in the upper Midwest, contributed 11 percent of revenues.

Consolidation The financial statements include the balances of the Corporation and its subsidiaries after elimination of material intercompany balances and transactions. All material subsidiaries are wholly owned.

Use of Estimates The preparation of our financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results may differ from those estimates.

Fiscal Year The Corporation's fiscal year ends on the Saturday nearest January 31. Unless otherwise stated, references to years in this report relate to fiscal years rather than to calendar years.

Fiscal Year	Ended	Weeks
1997	January 31, 1998	52
1996	February 1, 1997	52
1995	February 3, 1996	53

Revenues

Finance charge and late fee revenues on internal credit sales were $459 million on sales of $4.2 billion in 1997, $346 million on sales of $3.8 billion in 1996 and $292 million on sales of $3.8 billion in 1995. Leased department sales were $165 million, $162 million and $153 million in 1997, 1996 and 1995, respectively.

Earnings Per Share

In 1997, Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share" (EPS) was issued; all EPS amounts herein have been restated to reflect its adoption. Basic EPS (which replaces Primary) is net earnings, less dividend requirements on the Employee Stock Ownership Plan (ESOP) preferred shares, divided by the average number of common shares outstanding during the period.

Diluted EPS (which replaces Fully Diluted) assumes conversion of the ESOP preferred shares into common shares and net earnings are adjusted for expense required to fund the ESOP debt service, which results from the assumed replacement of the ESOP preferred dividends with common stock dividends. References to earnings per share herein relate to Diluted EPS.

On April 30, 1998, we will distribute to shareholders of record as of April 10, 1998, one additional share of common stock for each share owned, resulting in a two-for-one common share split. All earnings per share, dividends per share and common shares outstanding reflect this share split and the three-for-one share split in 1996.

	Basic EPS			Diluted EPS		
(Millions, Except Per Share Data)	**1997**	1996	1995	**1997**	1996	1995
Net earnings*	**$ 802**	$ 474	$ 311	**$ 802**	$ 474	$ 311
Less: ESOP net earnings adjustment	**(20)**	(20)	(20)	**(13)**	(14)	(14)
Adjusted net earnings*	**$ 782**	$ 454	$ 291	**$ 789**	$ 460	$ 297
Weighted Average Common Shares Outstanding	**436.1**	433.3	431.0	**436.1**	433.3	431.0
Performance Shares	**–**	–	–	**1.3**	1.7	1.9
Stock Options	**–**	–	–	**3.9**	2.4	.8
Assumed conversion of ESOP preferred shares	**–**	–	–	**22.4**	23.5	24.6
Total common equivalent shares outstanding	**436.1**	433.3	431.0	**463.7**	460.9	458.3
Earnings Per Share*	**$1.80**	$ 1.05	$ .67	**$1.70**	$ 1.00	$ .65

* Before extraordinary charges

Advertising Costs

Advertising costs, included in selling, publicity and administrative expenses, are expensed as incurred and were $679 million, $634 million and $670 million for 1997, 1996 and 1995, respectively.

Real Estate Repositioning Charge

In 1996, we recorded a pre-tax charge of $134 million ($.18 per share) for real estate repositioning at Mervyn's and DSD to strengthen competitive positions and achieve improved long-term results. The charge included $114 million for Mervyn's to sell or close its 25 stores in Florida and Georgia and approximately ten other under-performing stores throughout the chain. Also included was a net charge of $20 million for DSD's disposition of its Texas stores and the closure of two other stores.

To date, Mervyn's has exited the Florida and Georgia markets and closed seven other under-performing stores, while DSD sold three Texas stores and closed two other stores. Exit costs incurred during 1997 (approximately $17 million) were charged against the reserve; the reserve remaining at year end 1997 was $25 million.

Impact of Year 2000

Year 2000 related costs are expensed as incurred. In 1997, 1996 and 1995, year 2000 related expenses were immaterial.

Income Taxes

Reconciliation of tax rates is as follows:

Percent of Earnings Before Income Taxes	**1997**	1996	1995
Federal statutory rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal tax benefit	**4.5**	4.6	4.9
Dividends on preferred stock	**(.5)**	(.8)	(1.1)
Work opportunity tax credit	**(.1)**	–	(.5)
Other	**.6**	.7	(.3)
Effective tax rate	**39.5%**	39.5%	38.0%

The components of the provision for income taxes were:

Income Tax Provision: Expense/(Benefit) (Millions of Dollars)	**1997**	1996	1995
Current:			
Federal	**$488**	$344	$158
State	**99**	72	38
	587	416	196
Deferred:			
Federal	**(55)**	(89)	(5)
State	**(8)**	(18)	(1)
	(63)	(107)	(6)
Total	**$524**	$309	$190

The components of the net deferred tax asset/(liability) were:

Net Deferred Tax Asset/(Liability) (Millions of Dollars)	**January 31, 1998**	February 1, 1997
Gross deferred tax assets:		
Self-insured benefits	**$117**	$109
Deferred compensation	**103**	85
Postretirement health care obligation	**42**	44
Valuation allowance	**52**	49
Inventory	**46**	–
Other	**115**	108
	475	395
Gross deferred tax liabilities:		
Property and equipment	**(306)**	(288)
Inventory	**–**	(15)
Other	**(49)**	(35)
	(355)	(338)
Total	**$120**	$ 57

Consolidated Statements of Financial Position

(Millions of Dollars)	January 31, 1998	February 1, 1997
Assets		
Current Assets		
Cash and cash equivalents	$ 211	$ 201
Retained securitized receivables	1,555	1,720
Merchandise inventories	3,251	3,031
Other	544	488
Total Current Assets	5,561	5,440
Property and Equipment		
Land	1,712	1,557
Buildings and improvements	6,497	5,943
Fixtures and equipment	2,915	2,652
Construction-in-progress	389	317
Accumulated depreciation	(3,388)	(3,002)
Property and Equipment, net	8,125	7,467
Other	505	482
Total Assets	$14,191	$13,389
Liabilities and Shareholders' Investment		
Current Liabilities		
Accounts payable	$ 2,727	$ 2,528
Accrued liabilities	1,346	1,168
Income taxes payable	210	182
Current portion of long-term debt and notes payable	273	233
Total Current Liabilities	4,556	4,111
Long-Term Debt	4,425	4,808
Deferred Income Taxes and Other	720	630
Convertible Preferred Stock, Net	30	50
Shareholders' Investment		
Convertible preferred stock	280	271
Common stock	73	72
Additional paid-in-capital	196	146
Retained earnings	3,930	3,348
Loan to ESOP	(19)	(47)
Total Shareholders' Investment	4,460	3,790
Total Liabilities and Shareholders' Investment	$14,191	$13,389

See Notes to Consolidated Financial Statements throughout pages 25–36.

Cash Equivalents

Cash equivalents represent short-term investments with a maturity of three months or less from the time of purchase.

Retained Securitized Receivables

Through its special purpose subsidiary, Dayton Hudson Receivables Corporation (DHRC), the Company transfers, on an ongoing basis, substantially all of its receivables to a trust in return for certificates representing undivided interests in the trust's assets. DHRC owns the undivided interest in the trust's assets, other than the sold securitized receivables and the 5 percent of trust assets held by Retailers National Bank (RNB), a wholly owned subsidiary of the Corporation that also services the receivables. The undivided interests held by DHRC and RNB, as well as related income and expenses, are reflected in each operating division's assets and operating results based on the origin of the credit sale giving rise to the receivable.

In third quarter 1997, DHRC sold to the public $400 million of securitized receivables. This issue of asset-backed securities has an expected maturity of five years and a stated rate of 6.25 percent. Proceeds from the sale were used for general corporate purposes, including funding the growth of receivables. As required by SFAS No. 125, the transaction resulted in a pre-tax gain of $32 million. Total year results also include an additional $13 million pre-tax gain attributable to the application of SFAS No. 125 to our 1995 securitization. Combined, these gains total $45 million ($.06 per share). The net impact from these sales is a reduction of revenues and bad debt expense. As of year end, $800 million of securitized receivables have been sold to investors and DHRC has borrowed $100 million of debt secured by receivables.

The fair value of the retained securitized receivables, classified as available for sale, was $1,555 million and $1,720 million at year end 1997 and 1996, respectively. The fair value of the retained securitized receivables was lower than the aggregate receivables value by $126 million and $119 million at year end 1997 and 1996, respectively, due to our estimates of ultimate collectibility. Write-downs have been included in selling, publicity and administrative expenses in our consolidated results of operations.

Inventories

Inventories and the related cost of sales are accounted for by the retail inventory accounting method using the last-in, first-out (LIFO) basis and are stated at the lower of LIFO cost or market. The cumulative LIFO provision was $92 million and $86 million at January 31, 1998 and February 1, 1997, respectively.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives. Buildings and improvements are depreciated over eight to 55 years. Furniture and fixtures are depreciated over three to eight years. Accelerated depreciation methods are generally used for income tax purposes.

In first quarter 1996, the Corporation adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed Of." The impairment loss recorded upon adoption, as well as any further impairment losses recorded, were not material to our financial statements.

Internal Use Software

We will adopt Statement of Position (SOP) 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" in first quarter 1998. We expect the impact of this adoption to result in expense savings, and somewhat higher capital spending, at all three divisions. As a result, we estimate 1998 pre-tax earnings will increase by approximately $60 million ($.08 per share), net of first year depreciation.

Accounts Payable

Outstanding drafts included in accounts payable were $452 million and $414 million at year-end 1997 and 1996, respectively.

Commitments and Contingencies

Commitments for the purchase, construction, lease or remodeling of real estate, facilities and equipment were approximately $397 million at January 31, 1998. We are exposed to claims and litigation arising out of the ordinary course of business. Management, after consulting with legal counsel, believes the currently identified claims and litigation will not have a material adverse effect on our results of operations or our financial condition taken as a whole.

We have historically deducted for income tax purposes the inventory shortage expense accrued for book purposes, in a manner consistent with industry practice. With respect to our 1983 tax return, the IRS challenged the practice of deducting accrued shortage not verified with a year-end physical inventory. In June 1997, the United States Tax Court returned a judgment on this issue in favor of the IRS. We continue to strongly believe that our accrual practice is correct and have appealed this decision to the United States Court of Appeals for the Eighth Circuit. In order to stop further interest accrual, we paid the tax and interest assessed by the IRS in second quarter 1997, without impact to our results of operations. Our appeal was heard during the first quarter of 1998, and we expect the Court to issue its decision within the next year.

Consolidated Statements of Cash Flows

(Millions of Dollars)	1997	1996	1995
Operating Activities			
Net earnings before extraordinary charges	$ 802	$ 474	$ 311
Reconciliation to cash flow:			
Depreciation and amortization	693	650	594
Deferred tax provision	(63)	(107)	(6)
Other noncash items affecting earnings	43	11	52
Changes in operating accounts providing/(requiring) cash:			
Retained securitized receivables	(235)	(210)	(100)
Sold securitized receivables	400	–	400
Merchandise inventories	(220)	(13)	(241)
Accounts payable	199	281	286
Accrued liabilities	182	275	(88)
Income taxes payable	62	55	(38)
Other	(68)	42	(9)
Cash Flow Provided by Operations	1,795	1,458	1,161
Investing Activities			
Expenditures for property and equipment	(1,354)	(1,301)	(1,522)
Proceeds from disposals of property and equipment	123	103	17
Cash Flow Required for Investing Activities	(1,231)	(1,198)	(1,505)
Net Financing Sources/(Requirements)	564	260	(344)
Financing Activities			
(Decrease)/increase in notes payable, net	(127)	(416)	501
Additions to long-term debt	375	700	150
Reductions of long-term debt	(690)	(414)	(210)
Principal payments received on loan to ESOP	22	40	57
Dividends paid	(165)	(155)	(148)
Other	31	11	22
Cash Flow (Used for)/Provided by Financing Activities	(554)	(234)	372
Net Increase in Cash and Cash Equivalents	10	26	28
Cash and Cash Equivalents at Beginning of Year	201	175	147
Cash and Cash Equivalents at End of Year	$ 211	$ 201	$ 175

Amounts presented herein are on a cash basis and therefore may differ from those shown in other sections of this Annual Report. Cash paid for income taxes was $454 million, $352 million and $229 million during 1997, 1996 and 1995, respectively. Cash paid for interest (including interest capitalized) was $485 million, $434 million and $451 million during 1997, 1996 and 1995, respectively.

See Notes to Consolidated Financial Statements throughout pages 25–36.

Leases

Assets held under capital leases are included in property and equipment and are charged to depreciation and interest over the life of the lease. Operating leases are not capitalized and lease rentals are expensed. Rent expense on buildings, classified in buying and occupancy, includes percentage rents that are based on a percentage of retail sales over stated levels. Total rent expense was $143 million, $146 million and $144 million in 1997, 1996 and 1995, respectively. Most of the long-term leases include options to renew, with terms varying from five to 30 years. Certain leases also include options to purchase the property.

Future minimum lease payments required under noncancelable lease agreements existing at January 31, 1998 were:

Future Minimum Lease Payments (Millions of Dollars)	Operating Leases	Capital Leases
1998	$ 111	$ 21
1999	105	21
2000	82	21
2001	75	20
2002	70	20
After 2002	617	138
Total future minimum lease payments	$1,060	241
Less: Interest*	(405)	(103)
Present value of minimum lease payments	$ 655	$ 138**

* Calculated using the interest rate at inception for each lease (the weighted average interest rate was 9.1 percent.)
** Includes current portion of $8 million.

Lines of Credit

At January 31, 1998, two committed credit agreements totaling $1.6 billion were in place through a group of 29 banks at specified rates. There were no balances outstanding at any time during the year under these agreements.

Long-term Debt and Notes Payable

At January 31, 1998, $405 million of notes payable were outstanding, $305 million of which were classified as long-term debt as they were supported by our $800 million committed credit agreement that expires in the year 2002. The remaining $100 million is financing provided by the Dayton Hudson Credit Card Master Trust Series 1996-1 Class A variable funding certificate. This certificate is debt of DHRC and is classified in the current portion of long-term debt and notes payable in our Consolidated Statements of Financial Position. The average amount of notes payable outstanding during 1997 was $828 million at a weighted-average interest rate of 5.8 percent.

In 1997, we issued the following long-term debt: $100 million at 5.9 percent, maturing in 2037, puttable annually by investors beginning in 1999; $75 million at 5.9 percent, maturing in 2027, puttable annually by investors beginning in 1999; and $200 million at 6.8 percent, maturing in 2028. The proceeds from these issuances were used for general corporate purposes.

Also during 1997, we repurchased $503 million of long-term debt with an average remaining life of approximately 18 years and a weighted average interest rate of 9.4 percent.

At year end the debt portfolio was as follows:

Long-term Debt and Notes Payable (Millions of Dollars)	**January 31, 1998** Rate*	**January 31, 1998** Balance	February 1, 1997 Rate*	February 1, 1997 Balance
Notes payable	5.7%	$ 405	5.6%	$ 532
Notes and debentures:				
Due 1997–2001	8.7	1,052	8.8	1,198
Due 2002–2006	7.6	1,063	7.7	1,087
Due 2007–2011	9.4	478	9.4	649
Due 2012–2016	9.4	48	9.4	141
Due 2017–2021	9.5	485	9.5	608
Due 2022–2026	8.3	654	8.3	700
Due 2027–2037	6.3	375	–	–
Total notes payable, notes and debentures**		4,560		4,915
Capital lease obligations		138		126
Less: current portion		(273)		(233)
Long-term debt and notes payable		$4,425		$4,808

*Reflects the weighted-average stated interest rate as of year end.
**The estimated fair value of total notes payable, notes and debentures, using a discounted cash flow analysis based on our incremental interest rates for similar types of financial instruments, was $5,025 million at January 31, 1998 and $5,246 at February 1, 1997.

Required principal payments on long-term debt and notes payable over the next five years, excluding capital lease obligations, are $265 million in 1998, $147 million in 1999, $388 million in 2000, $352 million in 2001 and $497 million in 2002.

Derivatives

From time to time we use interest rate swaps to hedge our exposure to interest rate risk. The fair value of the swaps is not reflected in the financial statements and any gain or loss recognized upon termination is amortized over the life of the related debt obligation. The fair value of existing swaps is immaterial.

Consolidated Statements of Shareholders' Investment

(Millions of Dollars, Except Share Data)	Convertible Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Loan to ESOP	Total
January 28, 1995	$277	$72	$ 89	$2,882	$(127)	$3,193
Consolidated net earnings	–	–	–	311	–	311
Dividends declared	–	–	–	(149)	–	(149)
Tax benefit on unallocated preferred stock dividends and options	–	–	5	–	–	5
Conversion of preferred stock and other	(20)	–	11	–	–	(9)
Net reduction in loan to ESOP	–	–	–	–	47	47
Stock option activity	–	–	5	–	–	5
February 3, 1996	257	72	110	3,044	(80)	3,403
Consolidated net earnings	–	–	–	463	–	463
Dividends declared	–	–	–	(159)	–	(159)
Tax benefit on unallocated preferred stock dividends and options	–	–	7	–	–	7
Conversion of preferred stock and other	14	–	16	–	–	30
Net reduction in loan to ESOP	–	–	–	–	33	33
Stock option activity	–	–	13	–	–	13
February 1, 1997	271	72	146	3,348	(47)	3,790
Consolidated net earnings	–	–	–	751	–	751
Dividends declared	–	–	–	(169)	–	(169)
Tax benefit on unallocated preferred stock dividends and options	–	–	17	–	–	17
Conversion of preferred stock and other	9	–	18	–	–	27
Net reduction in loan to ESOP	–	–	–	–	28	28
Stock option activity	–	1	15	–	–	16
January 31, 1998	**$280**	**$73**	**$196**	**$3,930**	**$ (19)**	**$4,460**

Common Stock

Authorized 3,000,000,000 shares, $.1667 par value; 437,833,456 shares issued and outstanding at January 31, 1998; 434,410,452 shares issued and outstanding at February 1, 1997.

Preferred Stock

Authorized 5,000,000 shares; Series B ESOP Convertible Preferred Stock $.01 par value, 362,004 shares issued and outstanding at January 31, 1998; 382,921 shares issued and outstanding at February 1, 1997. Each share converts into 60 shares of our common stock, has voting rights equal to the equivalent number of common shares and is entitled to cumulative annual dividends of $56.20. Under certain circumstances, the shares may be redeemed at the election of the Corporation or the ESOP.

Junior Preferred Stock Rights

In September 1996, we declared a distribution of shares of preferred share purchase rights. Terms of the plan provide for a distribution of one preferred share purchase right for each outstanding share of the Corporation's common stock. Each right will entitle shareholders to buy one six-hundredth of a share of a new series of junior participating preferred stock at an exercise price of $50, subject to adjustment. The rights will be exercisable only if a person or group acquires ownership of 20 percent or more of our common stock or announces a tender offer to acquire 30 percent or more of our common stock.

See Notes to Consolidated Financial Statements throughout pages 25–36.

Stock Option Plan

We have a stock option plan for key employees. Options include Incentive Stock Options, Non-Qualified Stock Options or a combination of the two. A majority of the options vest annually in equal amounts over a four-year period. These options are cumulatively exercisable and expire no later than ten years after the date of the grant. We also have a non-qualified stock option plan for non-employee members of our Board of Directors. Such options become exercisable after one year and have a ten-year term. The typical frequency of stock option grants is once each fiscal year. Due to a change in timing, two annual grant cycles fell into 1996.

A performance share and restricted share plan exists for key employees although no grants have been made since 1995. Performance shares are issued to the extent certain financial goals are met over the four-year period from the date of grant. Restricted shares are issued four years from the date of grant. Once issued, performance shares and restricted shares generally vest only upon retirement.

Options, Performance Shares and Restricted Shares Outstanding (Shares in Thousands)

	Options					
	Total Outstanding		Currently Exercisable			
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Performance Shares*	Restricted Shares*
January 28, 1995	7,956	$10.47	5,026	$ 9.44	1,488	261
Granted	2,985	11.75				
Canceled	(208)	11.95				
Exercised	(766)	6.98				
February 3, 1996	9,967	$11.09	5,372	$10.30	1,607	359
Granted	6,539	16.09				
Canceled	(145)	12.19				
Exercised	(1,751)	9.67				
February 1, 1997	14,610	$13.48	4,782	$10.88	1,264	311
Granted	2,653	33.63				
Canceled	(346)	15.02				
Exercised	(2,450)	10.27				
January 31, 1998	**14,467**	**$17.69**	**4,860**	**$13.15**	**794**	**212**

* Represents unissued shares

Options Outstanding (Shares in Thousands)

Shares Outstanding at January 31, 1998	Range of Exercise Price
593	$ 5.86 – $10.00
7,626	$10.00 – $15.00
6,248	$15.00 – $34.60
Total 14,467	$ 5.86 – $34.60

As of January 31, 1998, outstanding options had a weighted-average remaining contractual life of 7.4 years. The number of unissued common shares reserved for future grants under the stock option plans were 7,143,228 at January 31, 1998, and 9,129,094 at February 1, 1997.

We apply Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," to account for our stock option and performance share plans. Because the exercise price of the Corporation's employee stock options equals the market price of the underlying stock on the grant date, no compensation expense related to options is recognized. Performance share compensation expense is recognized based on the fair value of the shares at the end of each reporting period. If the Corporation had elected to recognize compensation cost based on the fair value of the options and performance shares at grant date as prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," net earnings would have been the pro forma amounts shown below. Earnings per share calculated under SFAS No. 123 was unchanged from reported earnings per share.

Pro Forma Earnings	**1997**	1996	1995
Net Earnings—as reported	$ 751	$ 463	$ 311
Net Earnings—pro forma	$ 751	$ 462	$ 310

The Black-Scholes method was used to estimate the fair value of the options at grant date based on the following factors:

	1997	1996	1995
Dividend yield	1.0%	1.7%	1.7%
Volatility	25%	25%	25%
Risk free interest rate	5.4%	6.3%	6.3%
Expected life in years	5.6	5.6	5.6
Weighted Average Fair Value at Grant Date	$10.52	$5.65	$3.67

Pension Plans

We have three defined benefit pension plans that cover all employees who meet certain age, length of service and hours worked per year requirements. Benefits are provided based upon years of service and the employee's compensation. Contributions to the pension plans are made periodically by the Corporation. Annual pension cost is calculated based on benefits that will ultimately be paid to eligible employees. The period over which unrecognized pension costs and credits are amortized, including prior service costs and actuarial gains and losses, is based on the remaining service period for those employees expected to receive pension benefits.

Net Pension Expense (Millions of Dollars)	1997	1996	1995
Service cost benefits earned during the period	$ 27	$ 26	$ 21
Interest cost on projected benefit obligation	39	37	35
Return on assets	(118)	(78)	(87)
Net amortization and deferral	71	36	47
Total	$ 19	$ 21	$ 16

Actuarial Assumptions (As of December 31)	1997	1996	1995
Discount rate	7¼%	7¾%	7½%
Expected long-term rate of return on plans' assets	9	9	9
Average assumed rate of compensation increase	4¼	4¾	4½

Funded Status	December 31, 1997	December 31, 1996
Actuarial present value of		
Vested benefit obligation	$500	$428
Accumulated benefit obligation	531	455
Projected benefit obligation	610	523
Fair market value of plans' assets*	718	587
Plans' assets in excess of projected benefit obligation	108	64
Unrecognized prior service cost	3	2
Unrecognized net actuarial gain	(33)	(21)
Prepaid pension assets	$ 78	$ 45

*The plans' assets consist primarily of equity and fixed-income securities.

Employee Stock Ownership Plan

We sponsor a defined contribution employee benefit plan. Employees who meet certain eligibility requirements can participate by investing up to 20 percent of their compensation. We match 100 percent of each employee's contribution up to 5 percent of respective total compensation. Our contribution to the plan is invested in the ESOP. It is anticipated that all available ESOP preferred shares (401(k) preferred shares) will be allocated to participants during 1998. The company will provide new common shares to the ESOP to fund the employer match after that date.

In 1989, we loaned $379 million to the ESOP at a 9 percent interest rate. Proceeds from the loan were used by the ESOP to purchase 438,353 shares of 401(k) preferred shares. The original issue value of the 401(k) preferred shares of $864.60 per share is guaranteed by the Corporation. Each 401(k) preferred share is convertible into 60 shares of the Corporation's common stock after giving effect to the 1998 and 1996 common share splits.

Our contributions to the ESOP, plus dividends paid on all 401(k) preferred shares held by the ESOP, are used to repay the loan principal and interest. Our cash contributions to the ESOP were $3 million in 1997, $23 million in 1996 and $45 million in 1995. Dividends earned on 401(k) preferred shares held by the ESOP were $21 million in 1997, $22 million in 1996 and $23 million in 1995. The dividends on allocated 401(k) preferred shares are paid to participants' accounts in additional 401(k) preferred shares. Benefits expense, calculated based on the shares allocated method, was $17 million in 1997, $31 million in 1996 and $39 million in 1995.

Upon a participant's termination, we are required to exchange at fair value each 401(k) preferred share for 60 shares of common stock and cash, if any. At January 31, 1998, 339,646 shares of 401(k) preferred shares were allocated to participants with a fair market value of $764 million.

The 401(k) preferred shares and related loan to ESOP are classified as Shareholders' Investment to the extent the preferred shares are permanent equity. The remaining 401(k) preferred shares of $33 million, net of the related loan to ESOP of $3 million at January 31, 1998, represent our maximum cash obligation at year end, measured by the market value difference between the preferred shares and common shares, and is excluded from Shareholders' Investment.

Postretirement Health Care Benefits

Retired employees become eligible for certain health care benefits if they meet minimum age and service requirements and agree to contribute a portion of the cost. The Corporation has the right to modify or terminate these benefits.

Accumulated Postretirement Benefit Obligation (Millions of Dollars)	December 31, 1997	December 31, 1996
Retirees	$ 50	$ 48
Fully eligible active plan participants	19	18
Other active plan participants	12	10
Prior service cost	(3)	(4)
Unrecognized gain	23	31
Accrued Health Care Cost	$101	$103

Net Periodic Cost	1997	1996	1995
Service cost benefits earned during the period	$1	$1	$1
Interest cost on accumulated benefits	5	5	5
Total	$6	$6	$6

An increase in the cost of covered health care benefits of 7 percent is assumed for 1998. The rate is assumed to decrease to 6 percent in the year 2000 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, a 1 percent increase in the health care trend rate would increase the accumulated postretirement benefit obligation by $5 million at January 31, 1998 and the net periodic cost by $.4 million for the year. The discount rate used in determining the accumulated postretirement benefit obligation was 7¼ percent for 1997, 7¾ percent for 1996 and 7½ percent for 1995.

Quarterly Results (Unaudited)

The same accounting policies are followed in preparing quarterly financial data as are followed in preparing annual data. Costs directly associated with revenues, such as cost of goods sold and percentage rent on leased stores, are allocated based on revenues. Certain other costs not directly associated with revenues, such as benefit plan expenses and real estate taxes, are allocated evenly throughout the year.

The table below summarizes results by quarter for 1997 and 1996:

(Millions of Dollars, Except Per Share Data)	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Total Year	
	1997	1996	**1997**	1996	**1997**	1996	**1997**	1996	**1997**	1996
Revenues	**$5,889**	$5,380	**$6,293**	$5,751	**$6,622**	$6,073	**$8,953**	$8,167	**$27,757**	$25,371
Gross Profit (a)	**$1,636**	$1,431	**$1,707**	$1,554	**$1,807**	$1,621	**$2,287**	$2,137	**$ 7,437**	$ 6,743
Net Earnings Before										
Extraordinary Charges (b)	**$ 126**	$ 42	**$ 141**	$ 101	**$ 179**	$ 116	**$ 356**	$ 215	**$ 802**	$ 474
Net Earnings (b) (c)	**$ 105**	$ 41	**$ 130**	$ 101	**$ 160**	$ 107	**$ 356**	$ 214	**$ 751**	$ 463
Basic Earnings Per Share (b) (c) (d) (e)	**$ .23**	$ .08	**$ .29**	$ .22	**$ .36**	$ .24	**$ .80**	$ .48	**$ 1.68**	$ 1.02
Diluted Earnings Per Share (b)(c)(d)(e)	**$ .22**	$ .08	**$ .27**	$ .21	**$ .34**	$ .23	**$ .76**	$ .45	**$ 1.59**	$ .97
Dividends Declared Per Share (e)	**$ .08**	$ .08	**$ .08**	$ .08	**$ .08**	$ .08	**$ .09**	$ .08	**$ .33**	$ .32
Common Stock Price (f)										
High	**$23.00**	$16.31	**$32.31**	$18.31	**$32.75**	$18.00	**$36.84**	$19.94	**$ 36.84**	$ 19.94
Low	**$18.94**	$12.25	**$23.19**	$14.56	**$26.19**	$15.38	**$30.78**	$17.31	**$ 18.94**	$ 12.25

(a) Gross profit is revenues less cost of retail sales, buying and occupancy. The LIFO provision, included in gross profit, is analyzed each quarter for estimated changes in year-end inventory levels, markup rates and internally generated retail price indices. A final adjustment is recorded in the fourth quarter for the difference between the prior quarters' estimates and the actual total year LIFO provision.

(b) Third quarter 1997 net earnings include a $32 million pre-tax gain, $.04 per basic and diluted share, related to the 1997 securitization transaction. Total year net earnings include a $45 million pre-tax gain, $.06 per basic and diluted share, related to the 1997 and 1995 securitization transactions.

(c) In 1997, first, second and third quarter net earnings include extraordinary charges, net of tax, related to the purchase and redemption of debt of $21 million, $11 million and $19 million, respectively, or $.05, $.03 and $.04 per basic share and $.05, $.02 and $.04, per diluted share. In 1996, first, third, and fourth quarter net earnings include extraordinary charges, net of tax, related to the purchase and redemption of debt of $1 million, $9 million and $1 million, respectively, or $.00, $.02, and $.00 per basic and diluted share.

(d) Fourth quarter and total year 1996 net earnings before extraordinary charges, net earnings and earnings per share include a pre-tax real estate repositioning charge of $134 million, or $.19 per basic share and $.18 per diluted share.

(e) Per share amounts are computed independently for each of the quarters presented. The sum of the quarters may not equal the total year amount due to the impact of changes in average quarterly shares outstanding and/or rounding caused by the 1998 two-for-one common share split and the 1996 three-for-one common share split.

(f) The Corporation's common stock is listed on the New York Stock Exchange and Pacific Stock Exchange. At March 20, 1998 there were 11,525 shareholders of record and the common stock price was $42.50 per share ($85.00 on a pre-split basis).

Report of Independent Auditors

Board of Directors and Shareholders
Dayton Hudson Corporation

We have audited the accompanying consolidated statements of financial position of Dayton Hudson Corporation and subsidiaries as of January 31, 1998 and February 1, 1997 and the related consolidated results of operations, cash flows and shareholders' investment for each of the three years in the period ended January 31, 1998. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dayton Hudson Corporation and subsidiaries at January 31, 1998 and February 1, 1997 and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 31, 1998 in conformity with generally accepted accounting principles.

Ernst + Young LLP

Ernst & Young LLP
Minneapolis, Minnesota
March 3, 1998

Report of Management

Management is responsible for the consistency, integrity and presentation of the information in the Annual Report. The consolidated financial statements and other information presented in this Annual Report have been prepared in accordance with generally accepted accounting principles and include necessary judgments and estimates by management.

To fulfill our responsibility, we maintain comprehensive systems of internal control designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with established procedures. The concept of reasonable assurance is based upon a recognition that the cost of the controls should not exceed the benefit derived. We believe our systems of internal control provide this reasonable assurance.

The Board of Directors exercises its oversight role with respect to the Corporation's systems of internal control primarily through its Audit Committee, which is comprised of five independent directors. The Committee oversees the Corporation's systems of internal control, accounting practices, financial reporting and audits to ensure their quality, integrity and objectivity are sufficient to protect shareholders' investments. The Committee's report appears on this page.

In addition, our consolidated financial statements have been audited by Ernst & Young LLP, independent auditors, whose report also appears on this page. As a part of its audit, Ernst & Young LLP develops and maintains an understanding of the Corporation's internal accounting controls and conducts such tests and employs such procedures as it considers necessary to render its opinion on the consolidated financial statements. Their report expresses an opinion as to the fair presentation, in all material respects, of the consolidated financial statements and is based on independent audits made in accordance with generally accepted auditing standards.

Robert J. Ulrich
Chairman of the Board and
Chief Executive Officer

Douglas A. Scovanner
Senior Vice President and
Chief Financial Officer

JoAnn Bogdan
Controller and Chief Accounting Officer

March 3, 1998

Report of Audit Committee

The Audit Committee met three times during fiscal 1997 to review the overall audit scope, plans for internal and independent audits, the Corporation's systems of internal control, emerging accounting issues, officer and director expenses, audit fees and retirement plans. The Committee also met individually with the internal auditors and independent auditors, without management present, to discuss the results of their audits. The Committee encourages the internal and independent auditors to communicate closely with the Committee.

Audit Committee results were reported to the full Board of Directors and the Corporation's annual financial statements were reviewed and approved by the Board of Directors before issuance. The Audit Committee also recommended to the Board of Directors that the independent auditors be reappointed for fiscal 1998, subject to the approval of the shareholders at the annual meeting.

March 3, 1998

Summary Financial and Operating Data

(Millions of Dollars, Except Per Share Data)	1997	1996	1995(a)	1994	1993	1992
Income Statement Data						
Revenues	**$ 27,757**	25,371	23,516	21,311	19,233	17,927
Cost of retail sales, buying and occupancy	**$ 20,320**	18,628	17,527	15,636	14,164	13,129
Selling, publicity and administrative	**$ 4,532**	4,289	4,043	3,614	3,158	2,961
Depreciation and amortization	**$ 693**	650	594	548	515	476
Interest expense, net	**$ 416**	442	442	426	446	437
Earnings before income taxes and extraordinary charge (c)	**$ 1,326**	783	501	714	607	611
Income taxes	**$ 524**	309	190	280	232	228
Net earnings (c) (d)	**$ 751**	463	311	434	375	383
Financial Position Data						
Working capital	**$ 1,005**	1,329	1,432	1,569	1,436	1,450
Property and equipment, net	**$ 8,125**	7,467	7,294	6,385	5,947	5,563
Total assets	**$ 14,191**	13,389	12,570	11,697	10,778	10,337
Long-term debt	**$ 4,425**	4,808	4,959	4,488	4,279	4,330
Shareholders' investment	**$ 4,460**	3,790	3,403	3,193	2,849	2,566
Per Common Share Data (b)						
Diluted earnings per share (c) (d)	**$ 1.59**	.97	.65	.92	.80	.80
Cash dividend declared	**$ .33**	.32	.30	.28	.27	.26
Market price: high	**$ 36.84**	19.94	13.25	14.31	13.94	13.19
low	**$ 18.94**	12.25	10.75	10.88	10.56	9.81
year-end close	**$ 35.97**	18.81	12.50	11.50	11.00	12.94
Common shareholders' investment	**$ 9.59**	8.21	7.47	7.07	6.38	5.80
Other Data						
Average common shares outstanding (millions) (b)	**436.1**	433.3	431.0	429.6	428.8	427.8
Diluted average common shares outstanding (millions) (b)	**463.7**	460.9	458.3	457.4	456.3	455.6
Capital expenditures	**$ 1,354**	1,301	1,522	1,095	978	938
Number of Stores: Target	**796**	736	670	611	554	506
Mervyn's	**269**	300	295	286	276	265
DSD	**65**	65	64	63	63	63
Total stores	**1,130**	1,101	1,029	960	893	834
Total retail square footage (thousands)	**123,058**	117,989	109,091	101,163	93,947	87,362
Number of employees	**230,000**	218,000	214,000	194,000	174,000	170,000

The Summary Financial and Operating Data should be read in conjunction with the Notes to Consolidated Financial Statements on pages 25–36.

(a) Consisted of 53 weeks.

(b) Earnings per share, dividends per share and common shares outstanding have been adjusted to reflect our April 30, 1998 two-for-one common share split and our 1996 three-for-one common share split.

(c) 1997 included a $45 million pre-tax ($.06 per share) gain related to the sales of securitized accounts receivable; 1996 included a pre-tax real estate repositioning sharge of $134 million ($.18 per share).

(d) Extraordinary charge, net of tax, related to early extinguishment of debt was $51 million ($.11 per share) in 1997, and $11 million ($.02 per share) in 1996.

a million dollars a week

Dayton Hudson has a proud tradition of giving back to the communities where we operate through grantmaking, volunteerism and support of special community programs. In 1998, our grantmaking will exceed $57 million, or more than a million dollars a week. And in addition to money, we give our time.

In 1997, Target received the President's Service Award for volunteerism for its Family Matters initiative, which encourages families to get involved. The award is the highest honor given for community service in the nation. And in June 1997 thousands of Dayton Hudson team members spent a "Weekend of Giving" making their communities better places, a start on the commitment we made at the Presidents' Summit for America's Future.

In 1997, our three divisions and the Dayton Hudson Foundation gave more than $46 million to arts, social action and education groups across the country. We also made a $2.8 million corporate contribution to more than 300 United Way organizations in 39 states, and our employees gave another $10.2 million to the United Way.

In 1997, Target provided more than $2.6 million in scholarships for high school seniors and teachers. And more than $500,000 was raised for local schools through School Fundraising Made Simple,℠ where 1 percent of purchases on the Target Guest Card are donated to a school of the guest's choice.

Mervyn's Childspree program in 1997 provided 14,000 needy children with school clothes and supplies. And Mervyn's funded family involvement workshops, serving more than 50,000 parents and children, to help parents partner with their kids to succeed in school.

At the Department Store Division, Hudson's spearheaded Team 500, a fundraising effort for ten of Detroit's art and cultural organizations. Hudson's provided a $500,000 start-up grant and then matched community donations for a total gift of $1.5 million.

Our involvements in the community positively impact the lives of our guests, team members and all community citizens—and they help define the brand character of our stores.

Directors and Management

Directors

Livio D. DeSimone
Chairman and
Chief Executive Officer,
3M
(diversified manufacturer)
(1) (2) (5) (6)

Roger A. Enrico
Chairman and
Chief Executive Officer,
PepsiCo, Inc.
(domestic and international beverage and food company)
(1) (3) (5)

William W. George
Chairman and
Chief Executive Officer,
Medtronic, Inc.
(therapeutic medical device company) (1) (2) (4)

Michele J. Hooper
Corporate Vice President,
and President,
International Businesses,
Caremark International, Inc.
(health care company)
(1) (2) (5) (6)

James A. Johnson
Chairman and
Chief Executive Officer,
Fannie Mae
(financial services company)
(1) (4) (5)

Richard M. Kovacevich
Chairman and
Chief Executive Officer,
Norwest Corporation
(banking and financial services company) (1) (2) (6)

Susan A. McLaughlin
President,
Consumer Services, Bell South Telecommunications, Inc.
(communications services company) (1) (4)

Anne M. Mulcahy
Vice President and
Chief Staff Officer
Xerox Corporation
(document management company) (1) (5)

Stephen W. Sanger
Chairman and
Chief Executive Officer
General Mills, Inc.
(consumer food products company)
(1) (3) (5) (6)

Solomon D. Trujillo
President and
Chief Executive Officer,
US WEST Communications Group, Inc.
(communications services company) (1) (3) (4)

Robert J. Ulrich
Chairman and
Chief Executive Officer,
Dayton Hudson Corporation
and Target (1)

(1) Executive Committee
(2) Audit Committee
(3) Compensation Committee
(4) Corporate Responsibility Committee
(5) Finance Committee
(6) Nominating Committee

Officers

Robert J. Ulrich*+
Chairman and
Chief Executive Officer,
Dayton Hudson Corporation
and Target

Kenneth B. Woodrow*+
President, Target

Larry V. Gilpin*+
Executive Vice President,
Team, Guest and Community Relations, Target

Robert G. McMahon*+
Senior Vice President,
Property Development, Target

John E. Pellegrene*+
Executive Vice President,
Marketing, Target

Gregg W. Steinhafel*+
Executive Vice President,
Merchandising, Target

Bart Butzer*+
President, Mervyn's

Shannon M. Buscho*+
Executive Vice President,
Stores, Mervyn's

Linda L. Ahlers, *+
President,
Department Store Division

James T. Hale*+
Senior Vice President,
General Counsel and
Secretary,
Dayton Hudson Corporation

Douglas A. Scovanner*+
Senior Vice President and
Chief Financial Officer,
Dayton Hudson Corporation

Vivian M. Stephenson, *+
Senior Vice President and
Chief Information Officer,
Dayton Hudson Corporation

Gerald L. Storch*+
President, Credit and
Senior Vice President,
Strategic Business Development,
Dayton Hudson Corporation

JoAnn Bogdan*
Controller and
Chief Accounting Officer,
Dayton Hudson Corporation

Gail J. Dorn
Vice President,
Communications,
Dayton Hudson Corporation

L. Fred Hamacher
Vice President,
Compensation and Benefits,
Dayton Hudson Corporation

William P. Hise
Assistant Secretary,
Dayton Hudson Corporation

Susan D. Kahn
Vice President,
Investor Relations,
Dayton Hudson Corporation

Stephen C. Kowalke
Vice President and Treasurer,
Dayton Hudson Corporation

Jack N. Reif
Assistant Treasurer,
Dayton Hudson Corporation

Sara J. Ross
Assistant Treasurer,
Dayton Hudson Corporation

* Executive Officer
\+ Corporate Operating Committee Member

Design: Little & Co, Minneapolis Printer: Litho, Inc., Minneapolis

Dayton Hudson Corporation

Corporate Offices: 777 Nicollet Mall

Minneapolis, Minnesota 55402

(612)370-6948

Annual Meeting

The Annual Meeting of Shareholders is scheduled for May 20, 1998, at 9:30 a.m. CDT at The Children's Theatre, 2400 Third Avenue South, Minneapolis, Minnesota.

Shareholder Information

Quarterly and annual shareholder information, including the Form 10-Q and Form 10-K Annual Report, which are filed with the Securities and Exchange Commission, is available at no charge to shareholders. To obtain copies of these materials, you may call 612-370-6736 or write to:

Vice President, Investor Relations
Dayton Hudson Corporation
777 Nicollet Mall
Minneapolis, Minnesota 55402

Information about Dayton Hudson is also available on the Internet at http:\\www.dhc.com.

Sales Information

Comments regarding Dayton Hudson sales results are provided periodically throughout the year on a recorded telephone message. You may access this message by calling 612-370-6500.

Direct Stock Purchase/Dividend Reinvestment Plan

First Chicago Trust Company of New York has a direct service investment plan that allows interested investors to purchase Dayton Hudson stock directly, rather than through a broker, and become a registered shareholder of the Company. The program, which is sponsored and administered by First Chicago Trust Company of New York, offers many features including dividend reinvestment. For detailed information regarding this program, call First Chicago Trust toll free at 1-888-268-0203 or write to:

The DirectSERVICE
Investment Program
c/o First Chicago Trust Company
P.O. Box 2598
Jersey City, NJ 07303-2598

Transfer Agent, Registrar and Dividend Disbursing Agent

First Chicago Trust Company of New York

Trustee, Employee Savings (401k) and Pension Plans

State Street Bank and Trust Company

Stock Exchange Listings

(Trading symbol DH)
New York Stock Exchange and Pacific Stock Exchange

Shareholder Assistance

For assistance regarding individual stock records, lost certificates, name or address changes, dividend or tax questions call First Chicago Trust at 1-800-317-4445, or write to:

First Chicago Trust Company
of New York
P.O. Box 2500
Jersey City, NJ 07303-2500

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